

**Market Oriented Innovation and Competitiveness: Empirical
Investigation into Ethiopian Manufacturers' Strategic Orientations and
Outcomes**

By

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Submitted in accordance with the requirements for the degree of

DOCTOR OF BUSINESS LEADERSHIP

At the

UNIVERSITY OF SOUTH AFRICA

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October, 2016

DECLARATION

I declare that MARKET ORIENTED INNOVATION AND COMPETITIVENESS:
EMPIRICAL INVESTIGATION INTO ETHIOPIAN MANUFACTURERS'
STRATEGIC ORIENTATIONS AND OUTCOMES is my own work and that all the
sources that I have been indicated and acknowledged by means of complete references.



October 13, 2016

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Abstract

The most perplexing question of business organizations today is how to get and sustain competitive advantage. The dependable answer to this question, as Peter Drucker stated, is defining a business in terms of customer values and designing innovation activities to create those values. Hence, market orientation and innovation are the two complementary pillars of success. This research, therefore, develops a conceptual model to examine how 1) internal factors influence the development of market orientation and innovation; and 2) market orientation and innovation impact on the competitiveness of manufacturing businesses in Ethiopia, a least developed country in sub-Saharan Africa.

Market and innovation orientations have been broadly recognized as performance antecedents in the strategic management literature. The performance impact of these orientations is extensively examined in the developed countries' business environments. Studies also indicate that market and innovation orientations affect performance in situations where the competitive intensity is high.

However, literature lacks adequate empirical evidence to determine whether market and innovation orientations have positive impact on performance in the least developed countries' economies; it is also deficient with the required literature to confirm whether the impact of these orientations on performance is minimal in the least economically developed environment where competitive intensity is low. The other shortcoming in the strategic orientation literature is the heterogeneity in defining and measuring market orientation constructs. Market orientation is defined from behavioral, cultural, capability, and integrationist perspectives.

Despite the contention on what the integrationist perspective suggests, very limited number of studies applies such comprehensive conceptualization. The study, therefore, is designed to fill these voids in the literature by designing a comprehensive model and testing it in the least developed context.

From practical point of view, following the current encouraging economic growth of Ethiopia, changes have been observed on the competitiveness of the business environment. In response to the growing competitiveness of the business environment, organizations should adopt relevant orientations and practices; i.e., practices recognized as appropriate to the

western environment. Hence, testing the validity of the sound managerial orientations and practices, based on scientifically accepted procedure in the least developed context, is mandatory before making use of them.

The research is conceptually rooted in the argument of resource based view and its extension- the dynamic capability. Based on this, the study a) models strategic orientations and managerial practices as capabilities that affect competitive advantage of firms; b) reviews literature on market orientation, innovation, marketing capabilities, organizational culture, and managerial practices to theoretically validate the proposed relationships in the conceptual model; and c) develops eight main hypotheses for empirical verifications. The investigation pursues positivist paradigm. It applies quantitative research design where the study tests the proposed relationships quantitatively by analyzing 204 usable responses (n=204) of the selected manufacturing companies.

The findings show that 1) market orientation and innovation have positive and significant effect on competitiveness of the manufacturing companies in Ethiopia; 2) the level of market orientation and its impact on competitiveness is influenced by sound employee training program, market based reward system, effective marketing program, and organizational culture that emphasize change, entrepreneurship, and achievement orientation; 3) the level of innovation and its impact on competitiveness is influenced by effective marketing program and organizational culture that emphasize change (i.e., adhocracy culture) and control over the change process (i.e., the hierarchy culture); 4) the effect of market orientation and innovation on competitiveness is stronger for the younger and larger organizations when compared to the older and smaller ones, respectively.

Based on these findings, the study suggests that managers, beyond ensuring the smooth running of day-to-day operations, should focus on marketplace changes by adopting and developing relevant orientations (i.e., market and innovation orientations) via improving the culture, structure, and other relevant capabilities.

Key Words: Market Orientation, Innovation, Competitiveness and Marketing Capabilities

Acknowledgement

First and for most I would like to thank Almighty God for giving me the strength to finish the study. God has given me the power to pass all the hurdles I encountered. Next, my sincere gratitude goes to my supervisor Dr. Salehu Anteneh and Co-supervisor Dr Sanchen Henning for your insightful suggestions to bring the thesis to its current status. I really appreciate your commitment to critically evaluate every piece of my work. I would also like to thank Dr Elsa Thirion-Venter (my online mentor) for your unreserved contribution to edit my work.

My heartfelt thanks also go to company managers who filled the questionnaire and gave interview by taking their precious time. Especially, I thank Ato Mandefro, corporate planning Head of DH Geda, for his kind assistance to distribute and collect questionnaire from all DH Geda Factories. I also thank Ato Admasu Tsegaye (AJB institute of quality management), Ato Alef (ETAB Soap factory), and Ato Ephrem (ETAB Soap factory) for their assistance at the time of data collection.

I would also thank all my colleagues at school of commerce for the encouragement you gave me. Especially, it is a good opportunity to thank my office mates Mulatu Mebratu and Ahmed Mohammed for your inspirational advice as well as for creating humorous and entertaining office environment at that difficult and stressful time.

Finally, the study wouldn't have been finalized without the encouragement and support of my family and parents. So, thanks my wife, W/ro Hanna Damtie, and my two lovely kids, Efrata Mesfin and Leuel Mesfin. I would also extend my deepest gratitude to my parents G/Workineh Melese (my father), W/ro Belaynesh Kebede (my mother), W/ro Tsige Workineh (my sister) and W/ro Maedin Workineh (my sister) for your all rounded help since childhood.

I cannot exhaustively list the countless good people who have given me assistance of different kind. Hence, I would like to say thank you and God bless you all!

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LIST OF ABBREVIATIONS

AGOA	African Growth and Opportunity Act
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Index
CMIN/DF	Chi-Square
COMPOR	Competitors Orientation
CRM	Customer Relationship Management
CSA	Central Statistics Agency
CUSTOR	Customer Orientation
DCs	Developed Countries
EPRDF	Ethiopian People's Revolutionary Democratic Front
GDP	Growth Domestic Product
GFI	Goodness-of-fit Index
GMCI	Global Manufacturing Competitiveness Index
GMCI	Global Manufacturing Competitiveness Index
GTP	Growth and Transformation Plan
INTCORD	Inter-functional Coordination
LDC	Least Developed Countries
MO	Market Orientation
MoFED	Ministry of Finance and Economic Development
MOI	Market Oriented Innovation
NEC	Not Elsewhere Classified
OCAI	Organizational Culture Assessment Instrument
PMO	Proactive (Market Orientation)
RBV	Resource Based View
RMSEA	Root Mean Square Error of Approximation
ROA	Return on Assets
ROI	Return on Investment
SEDA	Small Enterprise Development Agency
SEM	Structural Equation Modeling

SME	Small and Medium Enterprise
SRMR	Standardized Root Mean Square Residual
SSA	Sub-Sahara Africa
UNCTAD	United Nations Conference for Trade and Development
WEF-ACR	World Economic Forum- African Competitiveness Report
WEF-GCR	World Economic Forum- Global Competitiveness Report

Chapter 1

Introduction and Background Information

This research is about finding out the effect of strategic orientations (market and innovation orientations) on competitiveness of manufacturers in Ethiopia. In addition, it examines how organizational antecedents and firm characteristics affect the impact of strategic orientations on performance (i.e., competitiveness).

In the process of investigation, the study utilizes theories, models and empirical findings available in the literature.

1.1. Background of the study

The business environment is changing continuously and rapidly. It becomes highly complex and turbulent because of the complex relationships and interactions among environmental factors and because of the reduced cost of moving goods, capital, technology, and people globally (Mason, 2007).

Corresponding to the changes, the nature of competition has also been changing in scope and intensity, which in turn, demands new or improved theoretical and managerial approaches. In line with these developments in the business world, theories and approaches in strategic management have been changing. Formerly, the concern of the strategic management is limited to planning routines and ensuring orderly business practices. Recently, however, business uncertainty has grown and competition has become very tough, which push the role of strategic management from focusing on future

routines to embracing orientations that lead to viable business success in a highly volatile and dynamic environment. Consequently, different competitive advantage theories and perspectives have been advanced in the strategic management literature.

Porter (1985) argued that performance differential between firms is due to industry factors or due to the structure-conduct-performance paradigm, which explains that competitive advantage (performance) is gained through industry structure (structure) and behavior of industry members (conduct). In other words, according to Porter, the source of gaining unique competitive position is external or the industry.

Another perspective in the strategic management literature is the view that the source of competitive success or performance differential between firms is the existence of unique firm-specific resources (Barney & Clark, 2007). Similarly, dynamic capability, which is the extension of resource based theory, argued that firms can get sustained competitive advantage out of the dynamic combination of resources. Hence, the ability to sense the market environment and then configuring and re-configuring it in line with the market sensing result is a means of sustained competitive advantage (Day, 2011).

The resource based theory also identified the valuable resources that lead firms to sustained competitive advantage. Accordingly, a strong set of core managerial values (which are reflected in how managers treat employees, customers, suppliers, and others) are resources that provide organizations with the opportunity to foster innovation and flexibility and thereby gaining the sustained competitive advantage (Barney & Clark, 2007).

Heeding the resource based perspective, the study argues that the dynamic interplay among managerial practices, organizational culture, marketing capabilities, and managerial orientations lead firms to sustained competitive advantage. In other words, sound organizational culture, managerial practices, and marketing capabilities are the bases to develop the orientation and the ability to sense the market (market orientation) and then respond to the market (innovation), which ultimately lead firms to competitiveness (Day, 2011; Kohli & Jaworski, 1990; Narver & Slater, 1990; Vorhies & Morgan, 2005).

The market orientation literature defines the construct differently by considering the different perspectives on the cultural (Narver & Slater, 1990), the behavioral (Kohli & Jaworski, 1990), and the capability perspectives (Day, 1994). As a culture, market orientation is defined as the attitudes, values and believes of managers to understand customers and competitors and create inter-functional linkage to perform business activities based on the understanding of the market environment. As organizational behavior, market orientation consists of activities such as intelligence generation, intelligence dissemination, and responsiveness. Finally, as an organizational capability, market orientation is the ability of firms to continuously sense the market environment and respond in line with the changes sensed. Studies also suggest comprehensive conceptualization of the construct by integrating the perspectives (Raajj & Stoelhorst, 2008).

The theoretical contribution of market orientation and innovation to get sustainable competitive advantage has got strong empirical foundations in the literature. It has been

recognized in the literature that the two orientations are complementary antecedents to the competitive advantage of organizations. Studies show that market orientation is the source of creative idea and the studies also noted that being market oriented is necessary to ensure new product success, to remain dynamic in the ever changing environment, to reduce innovation dilemma, to enhance innovation efficiency, to anticipate innovation needs or to proactively identify emerging opportunities, and to provide input for the strategy formulation process (Atuahene-Gima, 1996; Narver & Slater, 1990 and; Hult, Ketchen, & Slater, 2005; Lin, Peng, & Kao, 2008; Laforet, 2008). The famous management insight of Peter Drucker sums it all: ‘major changes (innovative moves) always start outside an organization by generating and utilizing information about customers, competitors, and other environmental players’ (Mohr & Sarin, 2009).

However, other empirical studies which show that the perceived effect of these strategic orientations (market and innovation orientations) on performance is contextual.

Environmental conditions such as dynamism (the degree of variation in the environmental factors overtime), complexity (the degree of heterogeneity in the environmental factors), and capacity (the degree by which the environment proposes a sustained growth overtime) objectively and subjectively moderates the impact of market and innovation orientation on performance (Dess & Beard, 1984; Gotteland & Boulé, 2006).

This throws doubt on the generalizability of and indicates insights for further research on the resource based theory in least developed business environment, which is characterized by little environmental dynamism, complexity, and capacity (WEF, 2014-2015). Hence, the study is designed to investigate how managerial orientations and practices influence

competitiveness in the manufacturing sector of Ethiopia. Manufacturing businesses are heeded as targets of this study for the following reasons.

First, manufacturing has been contributing very significantly to the economic prosperity of different countries through creating a sustainable economic ecosystem, encouraging domestic and foreign investments, improving a country's balance of payments, creating good jobs within and outside the sector, boosting a country's intellectual capital and innovativeness (UNCTDA, 2009; Deloitte, 2013; CSA, 2012).

Second, providing due recognition to its economic contribution, governments, today, are working to enhance competitiveness of the sector through developing capacities of the manufacturing firms. According to Global Competitiveness Index (GMCI) by Deloitte (2013), governments, today, equate competitiveness among manufacturing sectors with competitiveness among different countries. Thus, many governments are working towards creating vibrant sector by synchronizing government policy with investment decisions of the manufacturing executives.

Third, even though the sector is tremendously developed in and significantly contributing to the developed countries' economies, its contribution to the Least Developed Countries' (LDCs) economies is insignificant, and it has little or no contribution to the economy of the sub-Saharan African countries. Technical and managerial manufacturing capabilities are poorly developed in the sub-Saharan Africa countries compared to countries in the other regions and sub-regions. Manufacturing practices are less innovative and value-added; their operation is restricted to narrow range of primary products and low skill activities. Many studies and policy documents argued that macro and enterprise level

factors hampered innovation and innovation success of manufacturers in LDCs (see Chapter 3).

Fourth, in today's trend of faster globalization, the LDCs should be found improving their manufacturing operations. UNCTAD (2009) strongly warns LDCs by stating that "Unless the LDCs adopt policies to stimulate technological catch-up with the rest of the world, they will continue to fall behind other countries technologically and face deepening marginalization in the global economy." The study will throw light on the need to integrate the manufacturing strategy with the global changes.

In summary, therefore, researching and generating dependable empirical evidence on the organizational practices of the manufacturing businesses is more important because the sector 1) has paramount contributions to the economic development; 2) demands special attention from the LDCs due to its current backward and underdeveloped status; and 3) is identified as a priority sector to the economic development plan of the Ethiopian government.

1.2. Problem Statement

An emphasis from external industry factors as a source of competitive advantage is shifted to internal company resources as a source of competitive advantage. Company resources can be tangible and intangible. Company strategies, management orientations, management practices, organizational culture, and management skills and competencies are among the intangible resources that create competitive advantage to firms. Based on this, the strategic orientations (i.e., market and innovation orientations) have been widely

considered as determinants of competitive advantage. However, the existing literature is void in a) sufficiently examining how strategic orientations affect competitiveness in the least developed context; and b) integrating the cultural, behavioral, and capability views of the strategic orientations.

From business practice point of view, market oriented innovation, more than internally driven or product/technology based innovation, provides many interrelated benefits. Theodore Levitt (1960), the original mind of marketing, claimed that defining the business itself in terms of customers needs (rather than the product to be offered) provides clearer direction as to what to do next in order to fulfill those needs than the competition; knowledge and experience based marketing allows organizations to address real customer problems and achieve strategies (McKenna, 1991); knowledge and experience of the market lead to the identification of the worthwhile segments to target, guide proper allocation of the scarce resources into the innovation process and ensure innovation success (Sullivan, 2010); and focus on market helps to understand the changes in the marketplace and plan for continuous innovation and value creation (Kotler & Caslione, 2009).

Despite its benefits, many organizations found it difficult to be market-driven and transform their innovation activities from product and technology forward approach to market driven approach due to internal and external environmental characteristics (Sullivan, 2010). As Day (1994) clearly put it, one of the main reasons for not implementing market driven strategy is the confusion on what it means to be market-driven.

Understanding Market Orientation philosophy and the capabilities required of embedding the philosophy into organizational culture, structure, strategy, and activities are even poorer among enterprise leaders in LDCs (Alhakimi & Baharun, 2010). In other words, participation of the LDCs in the global business is limited because businesses in these countries lack marketplace touch.

The study, therefore, examines how strategic orientations (market orientation and innovation) affect competitiveness of firms and how the impact of these orientations on competitiveness is influenced by antecedent factors and organizational characteristics. Accordingly, the research targets to answer the following main question and sub-questions.

1.2.1 Main Question

How do strategic orientations affect competitiveness of the manufacturing businesses in Ethiopia? What antecedent factors and company characteristics affect the relationship between strategic orientations and performances?

1.2.2 Sub-Questions

1. What are the internal antecedents of strategic orientations (market and innovation orientations) and marketing capabilities of the organizations?
2. How do marketing capabilities influence the firms' strategic orientations?
3. How do strategic orientations affect competitiveness of the manufacturing businesses?

4. Do company's size and company's age moderate the impact of the strategic orientations on performance?

1.3. Aim and Objectives

1.3.1 Aim of the Study

The aim of the study is to explain how strategic orientations (market orientation and innovation) influence competitiveness of businesses and how the strategic orientations-performance link is affected by company level antecedents and firm characteristics in Ethiopia, one of the least developed countries in sub-Sahara Africa.

1.3.2 Objectives of the Study

The objectives of the study are

1. to determine the internal antecedents of strategic orientations (market and innovation orientations) and marketing capabilities.
2. to investigate how marketing capabilities affect strategic orientations.
3. to explain how strategic orientations (market and innovation orientations) affect competitiveness of businesses.
4. to analyze how firm characteristics (company size and company age) moderate the impact of strategic orientations (market and innovation orientations) on competitiveness?

1.4. Scope of the Study

Competitiveness is recognized in the literature as relevant performance indicator since it provides data on the relative performance of a region, a country, an industry, or a firm. The concept of competitiveness is defined in many ways by referring to the entity under consideration (i.e., firm, cluster of firms/industry, country, or region), the context within which comparison is made (i.e., international, national, or local), the drivers that enable the entity to perform (innovation, resource endowment, investment, prosperity, and productivity), and the measures used to make comparisons (i.e., standard of living, international trade, financial performance, market performance, and efficiency) (Iraldo, Testa, Melis & Frey, 2011). The present study examines competitiveness of firms in terms of the financial and market performance of the manufacturing businesses.

Prior empirical studies as well as competitiveness indices indicate many factors as drivers of competitiveness. Innovation is identified as one of the 10 drivers in Deloitte GMCI (2013) competitiveness evaluation and as one of the 12 drivers in WEF-GCR (2014-2015) competitiveness ranking. A study by Sirikrai & Tang (2006) also has modeled innovation as antecedent to competitiveness. Similarly, market orientation is broadly recognized as source of competitive advantage (Kohli & Jaworski, 1990; Narver & Slater, 1990).

Hence, innovation and market orientation are identified as determinants of competitiveness of the manufacturing companies in Ethiopia.

Innovation is broadly classified as product innovation, process innovation, and administrative innovation. The study includes all of the three types of innovation to fully

describe the impact of the company's innovation performance on its competitiveness (Jiménez-Jimenez et al, 2008).

Market orientation has been operationally defined from the viewpoint of culture, behavior, capability, or from the integration of these perspectives. The present study defined market orientation by taking the integrationist perspective. Antecedents of market orientation mentioned in the literature include, among others, interdepartmental dynamics, employee's moral, culture, reward system, structure, leadership, and others (Jaworski & Kohli, 1993). The present study considers culture, training and development practices, reward system, and top management emphasis as pertinent antecedents of the market orientation in the Ethiopian business context.

Methodologically, the study employed quantitative design as the main purpose of the study is to examine relationships among the concepts. Even though qualitative design or mixed design provides in-depth insights into the managerial orientations, the scope of the investigation is limited to explaining relationships via statistical results.

Finally, the study targets manufacturing companies in Addis Ababa. Addis Ababa is identified as the study area because a) nearly 50% of the medium and large manufacturing companies are available in the city; b) Addis Ababa, unlike other regions, has all of the manufacturing sub-sectors (CSA, 2012). Manufacturers can be classified in terms of size, nature of product, capital, number of employees, and other parameters. The study is intended to survey the practices of medium and large sized businesses in Ethiopia.

1.5. Methodology Summary

To investigate the perceived effect of market oriented innovation on competitiveness of manufacturers in Ethiopia, survey method is applied. Accordingly, data are collected from 232 manufacturers in Addis Ababa using structured questionnaire and responses are analyzed using structural equation modeling. The methodological procedure is vastly presented in chapter 4 of the thesis.

1.6. Rationale of the Study

Cognizant to the argument that internal firm resources (such as managerial orientations, values, and beliefs) are sources of competitive advantage, various studies have been conducted to examine how market and innovation orientations affect business performance. There are also studies which argue that the impact of market and innovation orientations is contingent on environmental factors such as competitive intensity, demand conditions/industry's developmental stage, market turbulence, technology turbulence, environmental hostility, stage of product life cycle and customer power (Diamantopoulos & Hart, 1993; Slater & Narver, 1994; Greenly, 1995; Jaiyeoba, 2014). Arguably, such findings calls for additional study to further validate the argument for the resource based theory in an environment where there is low complexity, dynamism, and competition intensity. Hence, the primary motive of the study is to examine how strategic orientations (market and innovation orientations), as internal firm resources, affect the manufacturer's competitiveness in Ethiopia, a least developed country where the business environment is less complex and dynamic. According to the study done by the World Bank, the business

environment of sub-Saharan Africa represents largely ‘unexplored territory for the business model’ (Schlumberger & Weisskopf, 2014: 95).

The second reason for conducting the study on the topic is to investigate the reciprocal relationships between market orientation and marketing capabilities. Market orientation as a foundation for marketing and other business practices has got very wide recognition from the academicians and practitioners. But, marketing strategies and practices, as sources of insights to develop market orientation and improve innovation performance, did not get scholarly attention, except Day’s (2011) proposal for further empirical investigation on the issue. Hence, the study is designed to investigate the impact of marketing capabilities (marketing strategies and practices) on the development of market orientation and innovation.

Third, the need for integrating the perspectives is suggested by many market orientation studies. Stressing the inadequacy of conceptualizing market orientation using only one dimension, Matsuno et al. (2003) suggested multiple information approach (i.e., integration of perspectives) to measure the organizational constructs. However, most of the studies to date define and measure MO in terms of either behavioral or cultural dimension, but relatively small number of studies takes the capability view (Liao et al., 2010). In other words, although the dimensions are complementary rather than mutually exclusive, the number of studies that combines different views is not adequate. Hence, this study is designed to test a framework that integrates orientations (market and innovation orientations), capabilities (marketing strategies and practices) and performance (competitiveness) in the context of organizational enablers and firm characteristics.

1.7. Significance of the Study

Brown (2006: 14) indicated that “if one doesn’t consider something to be knowledge or to be worth knowing, it is logically then not worth researching.” It is worthwhile to conduct a study that shows the relationship between strategic orientations and competitiveness for the literature business practitioners, policy makers, and other researchers interested in the subject, especially to those in LDCs.

1.7.1. Contribution to the Literature

As stated in the Rationale, sub-section 1.6, the study contributes to enriching the literature as follows: first, it examines the argument for the RBV in the least developed economic context by taking empirical evidences from Ethiopia. This contribution is significant because the sub-Sahara region represents unexplored business environment for which workable business models are unknown to the literature and to the practitioners (Schlumberger & Weisskopf, 2014). Second, the study examines empirically the effect of marketing capabilities on the development of strategic orientations, a relationship indicated as inadequately studied (Day, 2011). The last reason is that the study tests a framework that recognizes complementary relationships between strategic orientations and capabilities, an approach which is strongly recommended but not common in the literature (Tina & Katharina, 2015).

1.7.2. Contributions to Practitioners and Policy Makers

The proposed framework will have significant contribution to practitioners because it assumes that market oriented organizations have the culture, behavior, and capability to generate, process and utilize market knowledge more effectively than organizations with no such orientations (Dursun-Kilick, 2005; Narver & Slater, 1990; Kholi & Jaworsky, 1990). In other words, effectiveness in developing the culture and capability of utilizing market knowledge coupled with sound innovation strategy and practice contribute to competitiveness of the firms (Hurly & Hult, 1998). The model, therefore, serves as a guide to adopt, develop, maintain, and enhance strategically important orientations and capabilities.

It is stated earlier that the competitiveness of manufacturing is also concern for policy makers as the sector has tremendous contribution to a country's competitiveness. Hence, the study contributes to policy makers by indicating the interface between government strategies to develop the sector and the strategies of businesses to grow their respective companies.

1.8. Key Assumptions

Quantitative approach is found suitable to address the research objectives. In order to examine the association between strategic orientations and competitiveness, aggregating opinions of the respondents and explaining their responses using statistical parameters is a sound scientific approach that has been used by scholars to date. Hence, it is assumed in

this study that the quantitative approach will result in the best explanation of association between strategic orientations and competitiveness.

The second key assumption is whether the measurement scales validly address the constructs under investigation. The Likert scale is applied in this study to measure the key constructs. Despite the concern among statisticians for the application of statistical techniques with ordinal level data, the Likert scale remains appealing among social scientists. This is because the Likert scale a) is easy to measure perception; b) is easy to make statements to capture the essence of a specific construct; c) is easy for the respondents to understand and provide their perception; and d) can be used to measure wide range of constructs. Hence, it is assumed in this study that the Likert scale is a valid measure of constructs.

Finally, since association between the constructs is made via aggregating opinions collected from large number of respondents, the use of questionnaire as a data collection tool is a conventional approach.

1.9. Limitations of the Study

The study is limited in two ways. First, the data used in this study are cross-sectional and they are collected only from the manufacturing companies. But, longitudinal design would have allowed the researcher to explore the developments in the business environment of Ethiopia and the corresponding actions of manufacturing companies to adopt and develop relevant orientations that enable them to cope up with changes. In addition, the study findings are generalizable only for the manufacturing sector. Hence,

by taking longitudinal data, future studies can explore the marketplace changes in Ethiopia and the corresponding shifts in managerial orientations and practices. Similar studies can also be conducted by having data from other sectors (i.e., service, construction, and agriculture sectors) in order to draw generalizable inferences regarding the impact of strategic orientations on performance.

Second, the research design is quantitative and this design type is sufficient to explain the perceived effect of strategic orientations on competitiveness. However, quantitative survey method generates inferences by aggregating opinions of respondents rather than obtaining in- depth views of the respondents on the operation of manufacturers in Ethiopia.

Third, the present study addresses how internal factors and firm characteristics influence the development and impact of strategic orientations on performance. However, factors in the general environment (including economic, social, cultural, political, regulatory, infrastructural, and demographic variables) have the potential to promote or limit the development of managerial orientations and capabilities. Despite their influence, the factors are not included in the study and thus future research can examine the impact by triangulating methods.

1.10. Synopsis of Chapters

The thesis is organized in seven chapters. This chapter, Chapter 1, presents background to the study.

Chapter 2 presents the theoretical ground of the study. The aim of the Chapter is to explain the umbrella theoretical argument germane to the issue under investigation, to describe the void in the strategic orientations literature and indicate how the study addresses the gap.

Chapter 3 presents the review of documents on the business environments under sub-Saharan Africa which includes Ethiopia. The purpose is to describe the business context under which the investigation is conducted.

Chapter 4 discusses the how of the study. Once the problem is defined, its theoretical and practical rationale is stated, and the research environment is described, it is critically important to state how to address the problem. Hence, this chapter deals with the ontological and epistemological assumptions, the research design, the data types and sources, the sampling procedure, data collection instruments, and data analysis and interpretation procedure.

The data collected using the procedures stated in Chapter 4 are presented and analyzed in Chapter 5. Hence, in chapter 5, the data obtained are examined for completeness, entered into the SPSS program, and examined to find out if the statistical assumptions are fulfilled. Following the preliminary data examination activities, descriptive and causal analysis results are also presented in this Chapter.

Chapter 6 presents the discussions and interpretations of the results found out in Chapter 4 through referring to empirical findings of prior studies (i.e., literature) and facts obtained from the Ethiopian business context.

Chapter 7 presents the summary of findings, conclusions, and managerial implications. In addition, the chapter suggests areas for future research.

1.11. Summary

The chapter presents the argument that managerial orientations, capabilities and practices are resources that lead organizations to success in the competitive environment even in the least developed business environment. In line with this, the chapter presents a brief background of the topic, the problem statement, the rationale to conduct the study on the topic, the significance of the study, the scope of the investigation, and limitations of the study.

The chapter also presented synopsis of the rest of the chapters in order to make the flow of the thoughts clear from the outset.

1.12. Operational Definitions of Concepts and Constructs

- **Top Management Emphasis.** Top management emphasis refers to the role that managers can play in shaping the values and orientations of employees. It refers to managers' reinforcement of the importance of being market oriented or the importance of tracking marketplace changes, sharing intelligence with others in the organization, and responding to market needs (Jaworski & Kohli, 1993).
- **Reward System.** Reward system refers to the way how managers are evaluated and rewarded. It specifically shows the practice of business organizations to evaluate and reward employees and managers based on their ability to satisfy customers and their sensitivity to competitors' actions (Jaworski&Kohli, 1993).
- **Employee Training.** Employee training refers to the practice of business in designing training programs with market orientation contents. In other words, developing market oriented values and beliefs requires training on understanding customer needs, customer awareness, customers service, and training on generating, organizing, and disseminating marketplace information (Gounaris, Vassilikopoulou, & Chatzipanagiotou, 2010).
- **Market Culture.** Market culture is a type of organizational culture oriented toward the external environment instead of internal affairs.
- **Hierarchy Culture.** Hierarchy culture is a type of organizational culture oriented towards maintains internal control by rules, specialized jobs, and centralized decision.
- **Clan Culture.** Clan culture is characterized by family type arrangement where management encourages teamwork, employee involvement programs, and corporate commitment to employees.

- **Adhocracy culture.** Adhocracy culture is a type organizational culture that is characterized by a dynamic, entrepreneurial, and creative workplace.
- **Marketing Capabilities.** Marketing capabilities refers to “the integrative processes designed to apply collective knowledge, skills and resources of the firm to market-related needs of the business, enabling the business to add value to its goods and services, adapt to market conditions, take advantage of market opportunities and meet competitive threats. Marketing capabilities include product development capabilities, pricing capabilities, marketing communication capabilities, distribution capabilities, and capabilities of developing, implementing and monitoring marketing strategies (Vorhies, Morgan & Autry, 2009).
- **Market Orientation.** Market orientation is defined as “the business culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for customers.” Market orientation “consists of three behavioral components – customer orientation, competitor orientation, and inter-functional co-ordination (Narver & Slater, 1990)
- **Innovation.** Based on the resource based perspective, innovation refers to the influence of resources, organizational structure, processes and people on the development and marketing of new products. In this study, innovation is defined to include product innovation, process innovation, and organizational innovation (Varies & Littunen, 2010).
- **Competitiveness.** Competitiveness can be defined at different levels (i.e., country level, industry level, and firm level). In this study, competitiveness is defined at firm

level using indicators of productivity, market share, new market entry, and return on investment (Sirikrai & Tang, 2006).

Chapter 2

Theory and Literature Review

2.1. Introduction

The study is designed to investigate how strategic orientations affect business performance in light of theories and empirical observations. Theories and research findings are taken from marketing and strategic management literature. The purpose of this chapter, therefore, is a) to describe the theoretical tent where the thesis belongs; b) indicate gaps in the literature by reviewing empirical studies on strategic orientations, marketing capabilities and competitiveness; and c) develop hypotheses and conceptual framework.

Topics are arranged in the chapter based on the following sequence. First, review of competing theoretical arguments is presented. Second, empirical studies on strategic orientations, marketing capabilities, and competitiveness constructs are reviewed and presented. Third, the hypothesized relationships are presented and conceptual framework of the study established.

2.2. Theories of Competitive Advantage

Strategic management theories proposed different approaches to address the issue ‘how a firm gain sustainable competitive advantage over competing firms?’ The theories are different in terms of perspective and view of the competitive environment. This section presents brief overview of the major competitive advantage theories by specifically

focusing on the main theme of each theory and the views of critiques against the argument of the theory. Based on this, the review discussed first, the traditional competitive advantage theories; second, the industry view of competitive advantage; finally the resource based view and its extension, the dynamic capabilities.

2.2.1. Traditional Theories of Competitive Advantage

Most argue that competitiveness theories are rooted in earlier trade theories of economics, ranging from the earliest mercantilist view of trade as a zero-sum game to the recent view of economies of scale. The earliest theories such as absolute advantage theory by Adam Smith (1776), comparative advantage theory by Ricardoc (1817), and factor endowments theory by Eli Heckscher (1919) emphasized that possessing physical resources such as natural resources, labor, and capital are the means to gain advantage in the international trade and remain wealthy (Hill, 2008). These theories have been criticized because of a) the focus only on physical resources and scale economies as sources competitiveness; b) taking trade balance as indicator of competitiveness; and c) lack of firm level analysis.

Because of the emphasis on country level competitiveness, the application of these theories at industry and firm level is limited. According to Nilsson and Rapp (2005:4), there has been recent attempt to explain competitiveness at industry and firm levels by arguing that ‘upgrading national productivity results from the efforts of thousands of firms to achieve competitive advantage in their industry.’ Hence, consideration of competitiveness at country level has created the gap between economic theories and management practices (Nilsson & Rapp, 2005).

The first attempt to narrow down the level of competitiveness analysis and the gap between economic theories and management practices is made by Porter (Nilsson & Rapp, 2005:5). Unlike the argument of traditional economic theories that ‘wealth is created by endowments,’ Porter argued that ‘wealth is created by choices’ (Cho & Moon, 2002). The five force framework of Porter assisted organizations to link their strategies to industry variables such as the rivalry among existing firms, the threat of new entrants, the threat of substitute products and services, the bargaining power of suppliers, and the bargaining power of purchasers.

The most sophisticated and specific view of competitiveness is the one proposed by Resource Based Theory (RBT). Unlike the traditional and industry based views, the RBT argues that the main drivers of competitive advantage are resources and capabilities of firms.

2.2.2. Structure-Conduct-Performance (SCP) view of Competitiveness

Porter criticized the traditional models as incomplete and incorrect. Unlike traditional views, Porter argues that national wealth is created rather than inherited; and factor conditions are not adequate to be competitive. Hence, Porter stated that competitiveness of a nation is determined by the capacity of its industry to innovate (Porter, 1990).

Rooted in the industrial organization economics, the structure-conduct-performance framework operates with the assumption that the main drivers of competitiveness are industry variables that determine the industry structure (i.e., monopoly, entry barriers, and

bargaining power), conduct (i.e., strategies and actions of an organization), and ultimately performance (Bobel, 2010).

In this model, the industry structure is the source of competitive advantage. According to Porter, the magnitude and ease of making profit is determined by five industry forces- entry barriers (e.g. economies of scale and brand identity), bargaining power of buyers (e.g., buyer concentration and buyer volume), bargaining power of suppliers (e.g., differentiation of input and switching cost), threat of substitutes (e.g., buyers propensity to substitute), and industry rivalry (e.g., product differentiation and diversity of competitors). Therefore, the approach that firms should take to create competitive advantage is innovation or discovering new and better ways of competing in line with the industry structure.

This theory is one of the dominant theories in the strategic management literature.

However, it has been severely criticized as weak in terms of the following aspects (Wang, 2014). First, the unit of analysis is generic or comprehensive in that it doesn't allow intra industry analysis; second, the performance in a particular industry cannot be determined independently of the internal or organizational resource dynamics; third, the theory overemphasized competition and gives little emphasis for cooperation; and finally, Porter didn't consider the changes in industries, including digitization and globalization.

2.2.3. Resource Based Theory

Resource Based View (RBV) is another line of argument in the strategic management literature which posits that firms can achieve above normal performance through the use

of its resources and capabilities (Barney & Clark, 2007). This is an alternative position to Porter's approach which holds that competitive advantage emanates from the structure and competitive dynamics of an industry. According to RBV, competitiveness can be achieved by looking internally at the firm's ability to acquire and control valuable, rare, inimitable, and non-substitutable resources and capabilities. Distinction is made between "resources" and "capabilities." Resources are tradable and non-specific to the firm, while capabilities are firm-specific and are used to engage the resources within the firm, such as implicit processes to transfer knowledge within the firm (Barney & Clark, 2007).

RBV has become one of the most frequently cited management theories that stimulate discussion from different fields in the history of management theorizing (Mahoney & Pandian, 1992). Despite its wider recognition, the theory is not without criticism. Wang and Ahmed (2007) identified three major weaknesses of the RBV. First, RBV and the terminologies in RBV (i.e. resources, processes, capabilities and core capabilities) lack clear definitions; second, the RBV has been criticized for being static and sustained competitive advantage has been seen as unlikely in dynamic markets; and third, the RBV has been attacked for its failure to define mechanisms that explain how resources are transformed to competitive advantage. The theory has also been criticized in terms of little recognition of the external or industry situations and difficulty to find resources that meet the criteria (Day, 2011).

As a complement to the RBV, the notion of Dynamic Capabilities (DC) which recognizes the dynamic nature of the environment and the need to reconsider resource endowments

from the view point of changing competitive advantage has been advanced (Wang & Ahmed, 2007).

Dynamic capabilities are defined as “the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment (Teece, Pisano & Shuen, 1997).” Saying it differently, dynamic capabilities refer to purposeful activities of managers to create, extend, or modify the organization’s resource base to meet the changing marketplace requirements (Teece, 2007).

Teece (2009) mentioned three main functions of dynamic capabilities: 1) sensing environmental changes in the markets and technologies to determine opportunities and threats; 2) responding to the changes by combining and transforming available resources in new and different ways or adding new resources through partnerships or acquisition; and 3) selecting the organizational configuration and business model for delivering value to customers and then capturing the economic profit.

Innovation in firms, whether it is technical or organizational, should target adapting to and exploiting changes in the business environment (Teece, 2007). Firms must develop DC, as Teece (2007) mentioned, to create, extend, and modify the ways in which they make their living. DC focuses not only on what firms create or innovate such as entering new market, developing new product or process, or creating alliance with other firms but also how they do these activities. Hence to determine how firms react to the changing environment, it is necessary to understand the underlying managerial and organizational processes (Teece, 2007).

In summary, therefore, it is argued in this study that organizational orientations, organizational culture, and marketing and other managerial practices are firm level capabilities that determine competitive advantage of manufacturers.

2.3. Strategic Orientations as Dynamic Capabilities

As Teece (2007) stated, capability is an integration of resources, skills, and knowledge. Accordingly, the believes, practices, and abilities to put customers first (known as market orientation) is organizational capability (Day, 1994) that a firm should use it in combination with other capabilities such as organizational learning, openness for innovation (innovativeness), and marketing capabilities for the purpose of ensuring sustainable competitive advantage (Hurly & Hult, 1998; Day, 1994; Morgan et al, 2009).

Prior studies also defined these constructs as organizational capabilities. Market orientation, organizational learning, innovativeness, and entrepreneurship are identified as organizational capabilities by Hult & Ketchen (2001). Studies also confirmed that market orientation can be transformed into dynamic capabilities when complemented by innovativeness, which is transformational (reconfigurational) construct (Menguc & Auh, 2006). Market oriented capabilities creates customer value when it is integrated with intrapreneurship capabilities (Nasution & Mavondo, 2008).

Strategic orientations are ‘guiding principles’ that shape the intentions and actions of a firm in response to environmental stimuli; and more importantly, considered as guides that shape its interaction with the marketplace, both with customers and competitors (Noble, Rajiv & Kumar, 2002). The literature identified different kinds of strategic

orientations. Strategic orientations include market orientation, selling orientation, and production orientation (Noble et al, 2002); innovation, entrepreneurship, organizational learning, and employee orientation (Grinstein, 2008); aggressiveness, future orientation, marketing formalization, and risk proclivity (Jhonson, Martin & Saini, 2012); and customer orientation, technology orientation, and competitor orientation (Yang, Wang, Zhu & Wu, 2012).

Strategic orientations such as market orientation, entrepreneurial orientation, technology orientation, and innovation are firm level capabilities that can be adapted and developed over time (Teece, 2007; Day, 1994). As capabilities, they can be combined and recombined based on the environmental conditions in order to allow organizations to outperform in today's highly competitive business arena (Grinsten, 2008). A growing number of studies indicate that combination of alternative orientation provide organization with superior performance rather than the focus on a single orientation such as market orientation (Theodosiou, Kehagias, & Katsikea, 2012; Yang et al, 2012; Jhonson, et al., 2012; Noble, et al., 2002; Zhou & Li, 2010; Grinsten, 2008).

Recognizing the argument that combining alternative orientations provide superior firm performance, the present study investigated how market and innovation orientations, as complementary orientations, influence competitiveness of firms. Hence, as per the capability framework proposed by Teece (2007), market orientation and innovation are considered to be the process aspects of dynamic capability and competitiveness is the performance dimension.

2.4. Market Orientation

Market orientation has widely been recognized as major determinant of organizational performance in terms of securing sustainable competitive advantage. Recognizing this fact, it is argued in this study that market orientation, together with innovation, affects firm performance. Therefore, this section presents review of philosophical foundation, the operational meaning, the performance impact, and measurement approaches of the market orientation construct.

2.4.1. Philosophical Foundation of Market Orientation

The origin of customer focus traced back to the definition of marketing by Drucker in 1954 as ‘marketing is the whole business seen from the customers’ point of view.’ Since then, customer focus or customer value has received significant scholarly attention. Based on Drucker’s definition, Webster (2002) developed five assertions that emphasized the centrality of customers in the strategy and practice of business organizations. The assertions are ‘1) customer value creation is the purpose of a business; 2) value is defined by customers; 3) innovation and marketing are the only basic functions of a business; 4) selling and marketing are different; and 5) marketing is an organization-wide practice.’

Despite the early identification of centrality of customers as the starting point of strategy formulation and implementation, there was a shift in focus from customers to competitors or to industry structure at large in late 1960s and 1970s. During this time, the major issue of business organizations was identifying external opportunities and matching those opportunities with the business strengths and weaknesses (Webster, 2002). Therefore,

market is defined by strategists as collection of competitors vying for advantage.

However, this approach could not last long and Webster (2002) labeled 1970s and early 1980s as heyday of strategic planning due to factors such as global competition, the need to respond to customer needs, and responsiveness to the changing market conditions. As a result, the focus shifted again from formal strategic planning (which emphasized competitors' action) to strategy implementation and the need to understand customers.

Even if customer focused philosophy has gained significant acceptance among strategists and practitioners, approaches to implement the concept into practice remained void and untapped, especially until the end of 1980s and it is remained untouched up to the recent times in the least developed business environment (Schlumberger & Weisskopf, 2014).

Hence, focusing on the implementation problem, Brownlie and Saren (1991) mentioned that since marketing concept lacks clear implementation guideline, it was considered as vacuous rhetoric. Because of this, the philosophy is severely criticized in terms of the fact that first, consumers are not always sure of their wants and are open to persuasion; second, marketing concept reduce innovation in markets; third, market research is costly firm activity; fourth, marketing concept is not necessary to every organization; and fifth, global firms face difficulty of applying the concept due to cultural variations. It is also criticized as narrowly defined concept because of its application to customers alone by excluding other stakeholders, which is known as the new marketing myopia (Smith, Drumwright & Gentile, 2010).'

Those supporting the marketing concept have defending their position by arguing that the limitations suggested by these studies are not the inherent limitations of the philosophy.

Rather, the problems are attributed to implementation related challenges. Such implementation challenges include, first, lack of knowledge among practicing managers about the defining features and attributes of the concept (Day, 1999); second, there are also limitations that can be associated with organizational variables of those companies which are trying to translate the philosophy into practice (Brownlie & Saren, 1991); and third, failure to frequently adapt the philosophy to changing context, and in this regard, Levitt (1977) suggested that ‘When customers' values and needs are changed, effective managers won't abandon the marketing concept but will reinterpret what it means for operating strategies.’

Believing that the comments on the difficulty of implementing the concept do not change its validity, series of studies have been trying to look for solutions for the implementation difficulties and measures for empirical testing. Researchers, particularly in the late 1980s and early 1990s, have explored and described approaches to operationalize, measure, and interpret the philosophy's performance implication.

According to Mason and Harries (2006), market orientation has become the widely accepted term to refer specifically to implementation of the marketing concept. Kohli and Jaworski (1990), for example, use the term “Market Orientation” to mean the implementation of the marketing concept and defined market oriented organizations as one whose actions are consistent with the marketing concept.

Other popular models were also developed to test how the orientation affects performance; and in this regard Narver and Slater's (1990) cultural market orientation model and Day's (1994) capability model of market orientation are to name a few broadly

cited models in the literature. Using these frameworks, the performance impact of marketing concept (later known as market orientation) has been examined in different contexts such as service context (e.g., Au & Tse, 1997; Hyder & Chowdhury, 2015), manufacturing context (e.g., Subramanian & Gopalakrishan, 2001; Charles, Joel & Samwel, 2012; Wang & Mio, 2015), distributors context (e.g., Panigyrakis & Theodoridis, 2007), non-profit based organizations context (e.g., Balabanis, Stables & Philips, 1997; Padanyi & Gainer, 2004), and developing countries context (e.g., Appiah-Adu, 1997; Charles et al, 2012).

2.4.2. Operational Definitions of Market Orientation

As mentioned earlier, the challenges of practicing managers and researchers in the academia are associated with the conceptualization of marketing concept. Before 1980s there was understanding among practitioners that ‘embracing marketing concept improves performance.’ However, they didn’t understand what it means and how to implement it (Kohli & Jaworski 1990; Raajj & Stoelhorest, 2008).

One definition related challenge is the use of different terminologies in the literature. Terms such as customer orientation, marketing orientation, customer-centric, market-driven, customer-focused, market-focused, and market orientation have been used to mean that understanding marketplace factors and designing strategy accordingly is the means for business success (Jaworski & Kohli, 1996; Slater & Narver, 1998; Deshpande, 1999).

However, according to Jaworski and Kohli (1996), 'market orientation' is the right naming and other terms cannot be used interchangeably because market orientation includes large set of market forces other than customers. Similarly, Slater and Narver (1998) differentiated the definitions of the most frequently and interchangeably used terms- customer orientation and market orientation- as a customer-led philosophy is primarily concerned with satisfying customers' expressed needs, and is typically short-term in focus and reactive in nature; and a market-oriented philosophy, goes beyond satisfying expressed needs to understanding and satisfying customers' latent needs and it is longer-term in focus and proactive in nature.

The second challenge that is related to the meaning of market orientation construct is variation in perspective among the definition given by academic researchers.

Comprehensive review of market oriented literature by Gonzalez-Benito & Gonzalez-Benito (2005) shows the distinctions between two popular perspectives: behavioral (operational) perspective and cultural perspective. The additional perspectives mentioned in the literature are capability perspective (Day, 1994; Morgan et al, 2009), stakeholder perspective (Smith et al, 2010), and the integrationist perspective (Raajj & Stoelhorest, 2008).

The operational definitions of market orientation given by behavioral, cultural, capability and integrationist perspectives are presented as follows. It is worthwhile to note the contents of different views of market orientation because each perspective exhibits differences in content, method and level of analysis.

2.4.2.1. Behavioral or Operative Market Orientation

The behavioral view or ‘operative’ view defined market orientation in terms of organizational activities and processes (Gonzalez-Benito & Gonzalez-Benito, 2005).

Market orientation involves activities and behaviors that can be used to translate the marketing concept into practice (Kohli & Jaworski, 1990). Based on careful investigation into the literature sources and rigorous interview with practitioners, Kohli & Jaworski, 1990 forwarded the following behavioral definition of market orientation:

“Market orientation is the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it”

Kohli and Jaworski (1990) also defined the three main components of market orientation (intelligence generation, intelligence dissemination and responsiveness) precisely. The first component, intelligence generation, is the process of identifying customers expressed and future needs along with the environmental factors that shape those needs plus monitoring competitors from the view point of their actions in serving customers preferences. The second component is about communicating the intelligence known as intelligence dissemination. Intelligence dissemination is a means to participate all departments in order to adapt to market needs via successful exchanging of market information. Such action provides shared understanding of the marketplace among functional departments. The third component, responsiveness, is the action taken in response to intelligence that is generated and disseminated.

Kohli and Jaworski (1990) also stated that organizations have different levels of market orientation depending upon their success in doing these three activities. The level of

market orientation in turn affects the overall performance of firms. There are factors that limit or promote the performance of these activities known as antecedent factors. There are also factors that alter the impact of market orientation on performance, known as moderators. Hence, Kohli and Jaworski (1990) provide a complete framework that shows the components of market orientation, the organizational factors that affect the development of the construct, and the situations that moderate the constructs impact on performance. The framework is presented and described as follows:

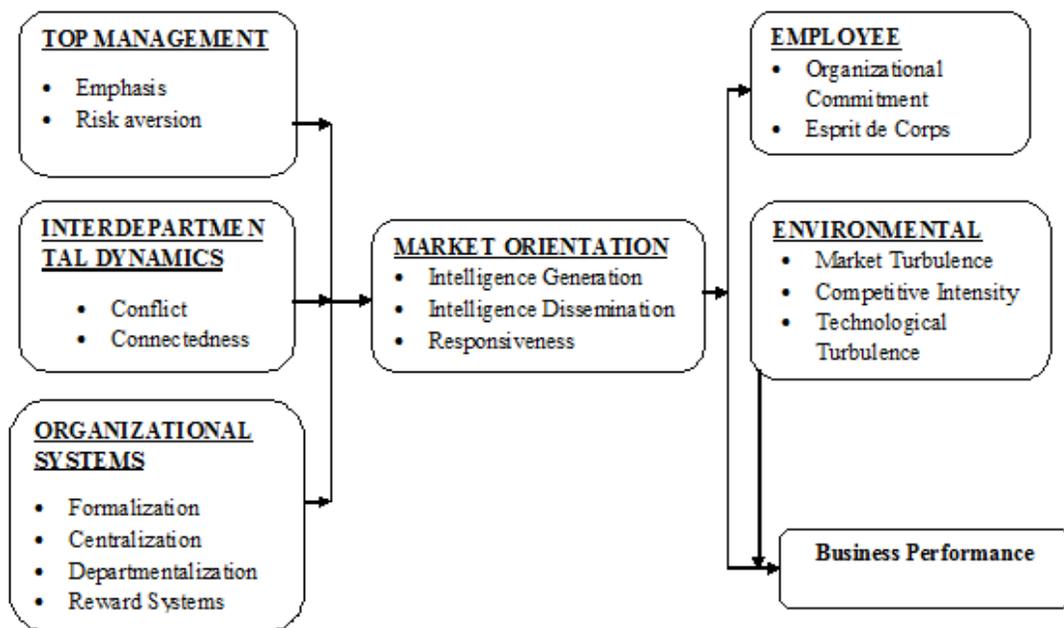


Figure 2.1 Antecedents and Consequence of Market Orientation

(Source: Jaworski & Kohli, 1993)

In this framework, Jaworski and Kohli (1993) defined market orientation in terms of three behavioral elements (intelligence generation, intelligence dissemination, and responsiveness). The authors also identified and empirically examined the main internal determinants (antecedents) that influence the development of market orientation and

external factors that moderate the impact of market orientation on performance. The antecedent factors are described in section 2.5.3.

2.4.2.2. Cultural View of Market Orientation

The cultural view defines market orientation as set of beliefs that puts the customer's interest first in order to develop a long-term profitable organization and authorities in this category argue that activities are manifestations of beliefs (Deshpande, Farley & Webster, 1993; Slater & Narver, 1994). The most frequently cited culture oriented definition of market orientation is the one given by Narver & Slater (1990):

Market orientation is defined as “the business culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for customers.” Market orientation “consists of three behavioral components – customer orientation, competitor orientation, and inter-functional coordination – and two decision criteria – long-term focus and profitability.”

Based on this, Narver and Slater (1990) developed a market orientation model and tested it empirically. Figure 2.2 presents the model known as “Independent Effects model of relationships between Market Orientation, Business-Specific Factors, Market Level Factors, and Performance.”

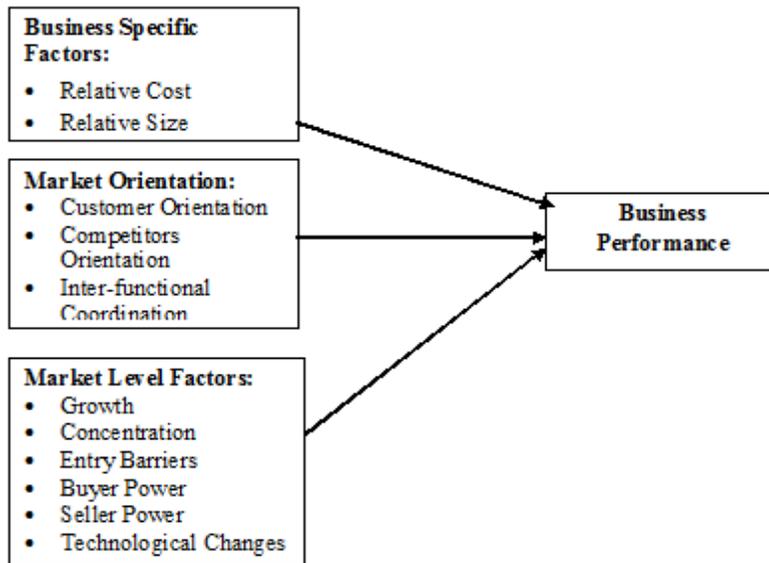


Figure 2.2 Independent Effects Model

(Source: Narver & Slater, 1990)

The model defines market orientation in terms of three components: customers’ orientation, competitors’ orientation, and inter-functional coordination. In addition, it describes how market orientation, along with business specific factors and market level factors, determine performance. Defining market orientation as a culture means that it is a firm level resource that provides organizations with such orientation with unique competitive position in the marketplace (Narver & Slater, 1998; Homburg & Pflesser, 2000; Mengus & Auh, 2006).

Although the view that believes (culture) precede actions (behavior) proved sound by many market orientation studies, Narver and Slater’s model didn’t describe how the two are related and the possibilities of using them simultaneously.

Homburg and Pflesser (2000) argue that defining market orientation as a culture using behavioral dimensions (customer orientation, competitor orientation, and inter-functional

coordination) indicates implicit assumption of the importance of embedding market orientation into companies' culture. This is because Narver and Slater did not define market orientation in terms of cultural components. Homburg and Pflesser (2000), therefore, suggested four causally related components of market orientated culture: values supporting market orientation, norms for market orientation, artifacts of market orientation, and market orientated behavior. Similarly, Matsuno, Mentzer & Rentz (2003) also mentioned that 'defining the antecedent (culture) in terms of a particular consequence, rather than its dimensions or components, is circular logic and poses great difficulty in empirical investigation, especially with regard to validity.'

Recent study by Lukas, Whitwell, & Heide (2013) shows that customer orientation (i.e., a component of market orientation in the definition of Narver & Slater, 1990) is an organizational culture on its own; and decision makers should consider customer orientation along with other cultural types such as adhocracy and market culture in order to properly meet customer requirements.

2.4.2.3. Capability View of Market Orientation

The third stream of conceptualization is viewing MO as a set of capabilities that make a firm market driven and competitive. Capabilities are unique and complex resources that are well embedded into the fabrics of an organization. According to Day (1994), market driven organizations have market sensing and customer linking capabilities that provide them with appropriate competitive position. Market sensing capabilities refer to the extent to which firms are committed to detect changes in the market and anticipate appropriate actions. Customer linking capabilities are skills, abilities, and processes of creating

collaborative customer relationships, disseminating customer-related information across functions, and establishing procedures and mechanisms to prepare appropriate responses.

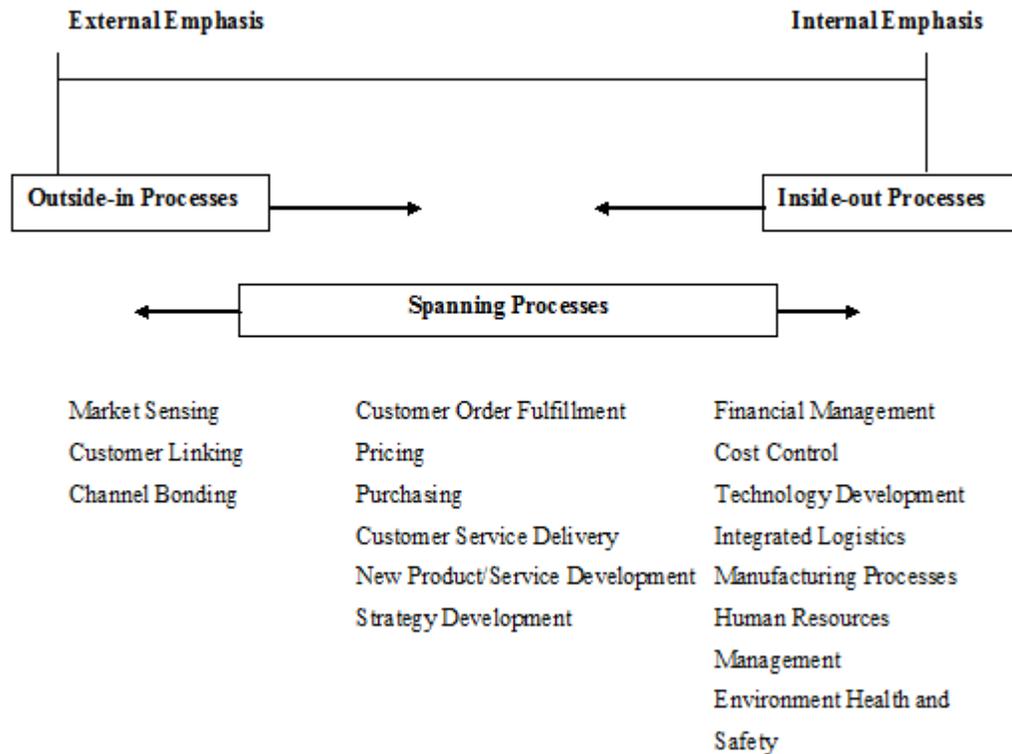


Figure 2.3 Classifying Capabilities
(Source: Day, 1994)

According to Day (1994), most market orientations studies are conducted to confirm the impact of the orientation on the performance of businesses. Unlike such studies, Day (1994) argue for the need to address the untouched issues of creating and sustaining important orientations. The author proposed that organizations can develop and sustain market orientation through identifying and building special capabilities of market sensing and customer linking.

The model identified three categories of capabilities: capabilities deployed from within, capabilities whose focal point is outside the organization, and capabilities that integrate the inside and outside capabilities known as spanning capabilities.

Day (1998) identified seven capabilities of market-driven organizations: offering superior solutions and experience; focusing on superior customer value; converting satisfaction to loyalty; energizing and retaining employees; anticipating competitors' moves; viewing marketing as an investment not a cost; and nurturing and leveraging brands as assets. The capabilities identified span targets such as customers, employees, competitors, and marketing capabilities such as investment in marketing activities and brands.

Day (2011) further upgraded the capability view in light of the dynamism and complexities of today's business environment. The study identified gap between the disruptive effects of technology (empowered customers, the proliferation of media, channel and customer contact points, or the possibilities for micro-segmentation) and capacity of firms to deal with complexities. In order to fill the gap, he recommend adaptive capabilities which comprises (1) vigilant market learning that enhances deep market insights with an advance warning system to anticipate market changes and unmet needs, (2) adaptive market experimentation that continuously learns from experiments, and (3) open marketing that forges relationships with those at the forefront of new media and social networking technologies, and mobilizes the skills of current partners. In this work, capabilities such as abilities to identify latent needs proactively, continuous learning, and relationship building are pertinent to deal with dynamism.

The effect of market orientation on organizational performance has been widely examined from capability perspective. Linking market orientation to firm strategy of gaining sustainable competitive advantage is a realistic way of investigating the construct (Day, 1994; Foley & Fahy, 2004). However, market orientation as a capability cannot be initiated and nurtured without market oriented culture; and hence Day (1994) stated that ‘the values, beliefs, and behaviors of members of the organizations’ should be considered in the process of developing market oriented capabilities.

2.4.2.4. Integrationist Perspective of Market Orientation

Raajj and Stoelhorest (2008) call the combination of the behavioral and cultural views as “integrationist view.” As Raajj and Stoelhorest (2008:1269) indicated, regardless of differences in perspective, it seems common to all perspectives and definitions that “Market oriented organizations are organizations that are well informed about the market and that have the ability to use that information advantage to create superior value for their target customers.” The variation is on the levers used by management for improving the market orientation of firms. Some used behavioral levers such as information processing, decision-making, and strategy formation; others use cultural levers to drive the desired behaviors, such as beliefs, values, and norms; still others recommend specific skills such as market sensing and customer linking as important levers. This implies that there are no barriers to combine levers while implementing market orientation.

By neglecting the duality of cultural and behavioral perspectives, the conceptual model proposed by Matsuno et al. (2003) integrate the two by positioning culture as antecedent of behavior. Similarly, Gonzalez-Benito and Gonzalez-Benito (2005) empirically test

the relationship between the cultural and behavioral perspectives and found positive results. However, of the 125 empirical studies reviewed in the study, only 5% of them integrate cultural and operational perspectives. Methodologically, since culture is interpreted in behavioral terms or measure the operational aspects, González-Benito and González-Benito (2005) found that 95% of the reviewed literature has operative emphasis.

Morgan et al (2009) indicate how capability is integrated into behavioral view of market orientation by acknowledging that market orientation is key market-based asset. They argue that firms can effectively respond to the market intelligence they generate and disseminate when complementary organizational capabilities such as product development and management, pricing, selling, marketing communications, channel management, marketing planning, and marketing implementation are available.

Liao, Chang, Wu and Katrichis (2011), based on the survey conducted on market orientation studies between 1995-2008, suggested the need for integrating technologies, methodologies and application to a better understanding of the market orientation reality.

In summary, therefore, based on the aforementioned empirical evidences and following the suggestion of Hult, Ketchen, and Slater (2005) to integrate different views, the present study combines the cultural and behavioral dimensions of market orientation.

Simultaneous modeling of different perspectives facilitates advancement of market orientation theory. In addition, it assists organizations to choose the right orientation that should be pursued (Deutscher, Zapkau, Schwens, Baum & Kabst, 2015).

2.4.3. Performance Impact of Market Orientation

Empirical studies dominantly proved the positive relationship between market orientation and performance in different regions, across industries, in both profit and non-profit organizations, across cultures, and socioeconomic situations (Cano, Carrillat & Jaramillo, 2004). Recent survey on market orientation studies by Liao et al. (2011) evidenced this fact. According to the survey, of the 38 sample articles written on market orientation and organizational performance, only 2 found out no relationship between market orientation and performance. The survey concluded that, studies in favor of the relationship between market orientation and performance is overwhelming.

Regarding the nature of market orientation-performance relationship, the literature documented different findings. As per the survey by Liao et al (2011) majority of the sample studies, 22 out of 38, proved that market orientation has direct impact on performance (e.g., Narver & Slater, 1990; Harris & Ogbonna, 2001; Singh, 2009; Farrell, Oczkowski and Kharabshel, 2008), 10 studies mentioned that the impact on performance is mediated by other constructs such as innovation and innovativeness (Matear, Osborne, Garrett & Gray, 2002; Han, Kim & Sirvastava, 1998; Menguc & Auh, 2006; Jimenez-Jimenez, et al, 2008), 6 studies show MO-performance relationship is moderated by contextual factors such as industry context, technological turbulence, and competitive environment (Zahra, 2008; Tsai, et al 2008; Slater & Narver, 1994).

Another dimension of market orientation studies is focusing on exploring how market orientation, in combination with other strategic orientations, affects organizational performance. In this regard, Jimenez-Jimenez, Sanz Valle & Hernandez-Espallardo (2008)

investigate the effect of market orientation and innovativeness on performance; Zahra (2008) examined empirically the combined effect of entrepreneurial orientation and market orientation and found out that the interaction effect is significant only in high technology industries; similarly, Baker & Sinkula (2009) examined the complementary effect of market orientation and entrepreneurial orientation on the profitability of small firms and found positive results. The results of the study also suggest the complementary effects of the two constructs on quality and quantity of firm's innovation.

Hence, market orientation literature documented different models that show how market orientation affects performance. The models are different in terms of first, nature of impact of market orientation on performance. The impact can be direct or mediated and/or moderated; and market orientation can affect performance in combination with other antecedents (e.g., innovation); second, perspectives (e.g., cultural, behavioral, capability or integrationist); finally, performance indicators (e.g., competitive advantage, sales growth, ROA, ROI, customer satisfaction, etc).

Prior studies also show that age and size of businesses moderate the impact of market orientation on performance (Hult, Snow & Kandemir, 2003). Literature show mixed results regarding the impact of size on the development of market orientation. Raju, Lonial, and Crum (2011) argue that Small and Medium Enterprises (SME) firms show unique characteristics to generate, disseminate, and utilize market information compared to large firms. Hence, the adoption and development of market orientation in SMEs is influenced by many size related barriers such as undifferentiated competition, limited resource infrastructure, and a short-term planning horizon (Siddique, 2014). Despite the

barriers unique to small firms, studies confirmed the positive impact of market orientation on performance of SMEs (Didonet, Simmons, Dı´az-Villavicencio, & Palmer, 2012).

There are also studies which further confirm that size does not moderate the impact of market orientation on performance (Blankson & Cheng, 2005). Contrary to the view that market orientation has positive impact on the performance of small sized businesses, Eggers, Kraus, and Hughes (2013) found a negative effect of customer orientation on the sustainable growth of SMEs. Therefore, it is argued in this study that the positive impact of market orientation is notable in large firms than in small firms.

The performance impact of market orientation also varies based on company age. Young organizations can be unique and gain high visibility if they have the values, capabilities and behaviors of understanding the marketplace (i.e., market orientation) and shape their strategies and actions accordingly (Hult, et al, 2003). Hult et al (2003) also found out that although proper orchestrations of orientations (i.e. market, innovation, entrepreneurship, and organizational learning) are necessary for the success of old organizations, emphasis on organizational learning can provide better performance. The success of products introduced by new firms is highly influenced by the extent to which those firms are shaping the strategies and offerings based on marketplace factors (Dursun-Kilic, 2005). Therefore, it is argued in this study that focus on marketplace factors enable young firms gain acceptance.

2.5. Innovation

2.5.1. Introduction

As mentioned earlier, innovation has been recognized widely as an important construct in market orientation models since Peter Drucker's identification of the two components (market orientation and innovation) as main functions of a business.

Innovation is viewed as 'elixir of life for firms' regardless of differences in context such as business size, business type and other attributes (Varis & Littunen, 2010). As a result, it has become a critical business language in our dynamic and ever changing world.

Today, environmental dynamism urges organizations to undertake frequent reconsideration and alteration of measure of success and administrative systems in response to environmental changes. The traditional measures of success, efficiency and effectiveness, can no longer be adequate measures and conditions such as rigid policies, prescriptive processes, political infighting, and fragmented organizations considered as impediments to business success (Shapiro, 2002). Price and quality are insufficient measures; performance should also be measured in terms of speed, reliability, service support, reduced downtime, and the like (Hulbert & Pitt, 1996). To deal with such challenges, systematic and successful implementation of change programs (innovation) is mandatory.

This section presents definitions and models of innovation, its relationship with other constructs (such as innovativeness, market orientation, entrepreneurship, and organizational learning), determinates of innovation success, measures of innovation, and performance impact of innovation.

2.5.2. Definition of Innovation

This question has sparked the interest of researchers, managers and policy makers for decades because innovation is a critical organizational practice (Becheikh, Landy & Amora, 2006). However, there is no consensus in defining innovation among researchers, managers, and policymakers.

Prior studies mentioned different reasons for the absence of common definition of 'innovation.' First, innovation is a multidisciplinary subject matter that can be applied in different areas such as social innovation, educational innovation, and organizational innovation (Bareghe, Romley & Sambrook, 2009; Marinova & Phillimore, 2003); second, the interchangeable use of the term 'innovation' with other similar terms such as creativity and change. However, Degraff and Quinn (2007:6) differentiated the three competing terms as follows:

“Creativity is the spark that ignites the fuel. Change is the heat that the combustion produces. Innovation is the engine turning the heat into power and moving the vehicle up the road toward a specific destination.”

The third challenge is lack of consistency in the contents or perspectives of the definitions (Harmancioglu Droge & Calantone, 2009; Bareghe et al, 2009). Bareghe et al, (2009) conducted content analysis on the definitions of innovation and found out that there are significant variations among definitions of innovation in terms of attributes reflected in each definition. The content analysis results of the study show that innovation has six common attributes: form of innovation, output, stage, social context, means, and aim of innovation.

The difference among the definitions of innovation has challenged researchers and practitioners. To resolve the challenge, different attempts have been made by researchers and strategists. One of the attempts is to draw a common definition by pinpointing common attributes in the definitions (Bareghe et al, 2009).

The second approach is to group definitions into different categories. Harmancioglu et al (2009) conducted study to systematically classify discourses and conceptualizations and provide parsimonious categorization. This approach is more or less similar to the work of Ansoff (1987) which is aimed at proposing a paradigmatic framework to reconcile differences in theories of strategic behavior.

Johannessen, Jon-Arlid, Olsen and Lumpkin (2001) grouped innovation research orientations into four: a) individual orientation (characteristics such as age, education level, gender, etc of individuals are considered); b) structural orientation (focus on organization); c) interactive research orientation (how action influences structure, and vice versa; political aspect of innovation); d) national and regional innovation system orientation (networks between companies and knowledge institutions, suppliers, customers and other entities). Johannessen et al (2001) provides a common definition of innovation that represents the different perspectives:

‘Innovation covers a wide range of activities used to improve firm performance, including the implementation of a new or significantly improved product, service, distribution process, manufacturing process, marketing method or organizational method. Innovation creates superior customer value and provides competitive edge to businesses.’

Similarly, Harmancioglu et al (2009) identified two theoretical streams as umbrella theories under which other dimensions and conceptualizations are categorized. The

theories are adoption/diffusion theory and resource based theory. Conceptualizations dealing with adoption/diffusion theory emphasized implementation and diffusion of innovation across nations, industries, organizations, or individuals; and those studies dealing with the influence of resources, organizational structure, processes and people on the development and marketing of new products are grouped under resource based view. Under these theoretical underpinnings, additional dimensions have been identified based on the level of analysis (product or firm) and investigation perspectives (customer or firm perspectives). For example, under the resource based view at firm level, innovation is defined as “a means of changing the organization either in response to changes in internal and external environment or as a pre-emptive action taken to influence the environment (Harmancioglu et al, 2009:232).” Within this definition, the study identified market related constructs (market turbulence, market attractiveness, and competition) and company related constructs (strategies, capabilities, resources, and competitive advantage).

In summary, innovation is conceptualized here as the capability of firms (the resources, structure, processes, and people) to improve products, services, marketing practices, and organizational arrangements in order to meet changing marketplace requirements. Hence, the conceptualization follows the resource based theoretical stream and the level of analysis is firm level analysis (Harmancioglu et al, 2009).

2.5.3.Types of Innovation

Similar to the definition of innovation, significant disparities exist in the literature regarding the classifications of innovation. One of the earliest systematic ways of sorting

innovation is grouping the activities into product, process, market and organizational groups based on the object of change (Schumpeter, 1934). Innovation literature also show classification into radical and incremental based on the extent of change (Varis & Littunen, 2010). Radical innovations are those that produce fundamental changes in the activities of the organization and represent a large departure from existing practices; and incremental innovations are those that result in a lesser degree of departure from existing practices (Damanpour, 1996).

Other than the variations in the classification approach, Bhoovaraghavan, Vasudevan & Chandran, (1996) traced confusion in the definition of each type of innovation. For example, ‘the definitions of product innovation always seem to encompass innovations that can also be characterized as process innovations and vice versa.’

Types innovation are identified based on the object of innovation and this classification approach is dominant in most strategic orientation studies (e.g., Ozkaya, Droge, Hult, Calantone & Ozkaya, 2015; Ngo & O’Cass, 2013; Varis & Littunen, 2010; Grinstein, 2008). Based on this, the present study also applied object based classification of innovation.

Table 2.1: Types of Innovation Based on Object

Type of Innovation	Definition
Product Innovation	The development of new or improved product
Process Innovation	Introduction of a new element (e.g., input materials, task specifications, work and information flow, and equipment) into the production process
Organizational Innovation	comprises changes in the structure and processes of an organization due to implementing new managerial and working concepts and practices
Management Innovation	Introduction of new management systems such as TQM and BPR
Production Innovation	Introduction of new production systems such as quality circle, JIT, etc.
Commercial/Marketing Innovation	Include new financing arrangements, new sales approach, etc.
Service Innovation	New or significantly improved service; e.g., Internet based financial services

Sources: Adapted from Trott, 2008:16; Armbruster, Bikfalvi, Kinkel, and Lay, 2008; Damanpour, 1996

2.5.4. Performance Impact of Innovation

The impact of innovation on the competitive advantage of businesses is extensively accepted in the literature (Han, Kim, & Srivastava, 1998; Otero-Neira, Lindman, & FernándeZ, 2009; Weerawardena & Mavondo, 2011; Fraj, Matute, & Melero, 2015).

Because of its contribution for organizational success, innovation has been examined in different contexts and by taking different dimensions. The dimensions that have been examined include the stage of the innovation process (organization as a generator of innovation or as an adopter of innovation), the level of analysis (industry, organization, or sub-unit level), types of innovation (technical-administrative innovation, product-process innovation, and radical-incremental innovation), and scope of innovation (adoption of multiple innovation over time versus one time innovation) (Camisión-Zornoza, Lapiedra-Alcamí, Segarra-Ciprés, & Boronat-Navarro, 2004; Otero-Neira et al, 2009).

The performance impact of innovation has specially been examined in large and small business contexts. However, Camisión-Zornoza et al, (2004) pointed out the fact that findings in the literature regarding the relationship between size and innovation are contradictory because of various operational meanings of size and variations in measures that correspond to those definitions of size. The meta analytic study of Camisión-Zornoza et al, (2004) identified the commonly used measures of size in the literature such as physical capacity, number of employees, input (volume of work), output (level of success), and financial resources (wealth and net assets).

Regardless of the differences in the measurement approach, the common theme that has been empirically explored is the impact of size on the adoption of innovation (e.g., Camisión-Zornoza et al, 2004; Kumar, Boesso, Favotto, & Menini, 2012). Small and medium firms are in good position to accept and implement changes more quickly because such firms are less bureaucratic, have greater facility for detecting errors and learning from them, greater affinity with values and styles of leadership that facilitate

communication and knowledge transfer, greater capability for customization, and higher employee motivation; and on the other hand, large firms are not responding to changes quickly because of their bureaucratic nature and lack of managerial commitment to carry out innovation activities (Saunila, Pekkola & Ukko, 2014; Bolívar-Ramos, Garcí'a-Morales, & Garcí'a-Sánchez, 2012).

Contrary to this, others (e.g., Bas, Mothe, & Nguyen-Thi, 2015; Bolívar-Ramos, 2012) argue that smaller firms have limited resource capabilities and have serious challenges of entry. The nature and size of innovation also vary among firms based on size. Large firms usually prospect for significant opportunities and smaller and medium firms introduce changes that are helpful to defend competitive challenges (Kumar, et al, 2012).

As a result of the variations in the innovation adoption process among small and medium firms, size has been frequently used in the innovation studies as a control variable that moderates the impact of innovation on performance. Similarly, the present study investigated the moderating impact of size on the innovation-performance link.

Innovation-performance link is also affected by age of organizations. Young firms, because of their favorable organizational design, are better able to benefit out of change initiatives (Laforet, 2013; Anderson & Eshima, 2013).

2.6. Marketing Capabilities

Based on the recognition that firm routines and practices are capabilities that lead to the attainment of sustainable competitive advantage (Weerawardena & Mavondo, 2011), many marketing scholars attempted to operationally define marketing capabilities and to

empirically test the performance impact of those capabilities. Day (1994) defined marketing capabilities as ‘the abilities and skills of conducting marketing routines by acquiring, shedding, integrating, and recombining resources to create superior values to customers.’ Similarly, Vorhies (1998) defined marketing capabilities as follows:

The integrative processes designed to apply collective knowledge, skills and resources of the firm to market-related needs of the business, enabling the business to add value to its goods and services, adapt to market conditions, take advantage of market opportunities and meet competitive threats

Marketing capabilities refer to the unique way of integrating knowledge and skills with other intangible and tangible resources (Vorhies & Harker, 2000). Such knowledge and skills allow firms to solve customer problems differently from competing firms. Hence, delivering superior values to customers is possible by possessing marketing capabilities (Guenzi & Troilo, 2006).

In the marketing capabilities literature, six marketing areas are identified as capabilities of market-driven businesses (Vorhies & Harker, 2000):

- **Marketing Research:** refers to the set of processes needed to discover broad-based market information and to develop information about specific customer needs, and to design marketing programs to meet those needs and market conditions.
- **Pricing:** the processes needed to competitively price the firm's products and services and monitor prices in the market.
- **Product Development:** is a marketing capability that enable firms to design products that can meet customer needs, can meet internal company goals and hurdles, and which are able to outperform competitors' products.

- **Distribution Channels Management:** it is the capability to establish relationships with distributors and manage the relationships effectively.
- **Promotion:** which includes advertising, sales promotions, and personal selling activities the firm uses to communicate with the market and sell the product.
- **Marketing Management:** focused on customer acquisition management, the management of marketing programs, and the ability to coordinate action among the diverse elements in the firm needed to implement a marketing program.

Morgan, Vorhies and Mason (2009) conceptualize marketing capabilities in terms of the ability of businesses to develop sound marketing plan and program. In addition, the study examined the relationship between marketing capabilities and market orientation. The framework that shows dimensions of marketing capabilities and the interaction between marketing capabilities and market orientation are presented in Figure 2.4 as follows.

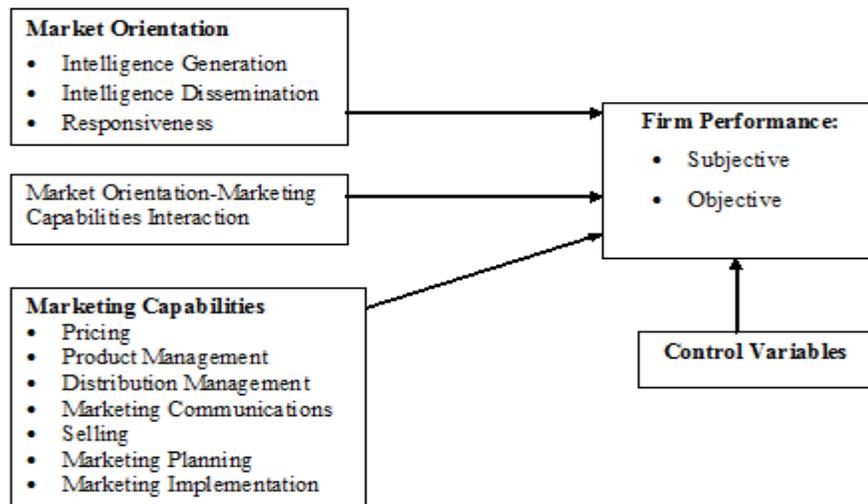


Figure 2.4 Marketing Capabilities
(Source: Morgan, Vorhies & Mason, 2009)

The framework indicates that marketing capabilities consists of marketing mix elements (such as pricing, product management, distribution management, communication, and selling practices) and market planning and implementation activities.

Studies on marketing capabilities also examined dimensions other than the marketing mix. For example, Morgan, Slotegraaf & Vorhies (2009) defined marketing capabilities as those capabilities that are related to market sensing, brand management, and customer relationship management (CRM).

Despite the variation in the operational definitions of marketing capabilities, almost all of the meanings of marketing capabilities are related to the marketing practices of a business.

Marketing capabilities have positive business performance impact. Capabilities such as marketing mix, market sensing, brand management and customer relationship management have impact on revenue and margin growth (Morgan, et al, 2009), export performance of manufacturers (Nalcaci & Yagli, 2014), and new product success (Mu, 2015). Kamboj and Rahman (2015) also found out that firms with good marketing capabilities lead to superior competitive position and financial performance compared to those focusing solely on operating capabilities.

The impact of marketing capabilities is affected by organizational and environmental factors. Wu (2013) argue that the impact of marketing capabilities on performance is influenced by institutional factors. According to the study, superior marketing capabilities have a stronger performance impact in economically developed and

individualistic societies than emerging economies; and the impact of marketing capabilities on performance is weaker in countries with strong legislative system. Similarly, considering the firm's internal environment, Mu (2015) found out that customer based and decentralized organizational structure plus a structure that facilitate functional units integration are favorable internal conditions to develop and utilize marketing capabilities that enable firms to adapt to external changes and enhance new product performance. In other words, firms with hierarchical, centralized, and fragmented organizational arrangements cannot develop successful marketing capabilities.

Marketing capabilities are widely recognized as means of implementing the marketing philosophy of a firm. For example, Theodosiou, Kehagias, and Katsikea (2012) argue that the philosophy of creating superior value to customers better than competitors (customer and competitors orientations) is the base for the development of marketing capabilities. O'cass and Heirati (2015) also recognized market orientation as a guiding philosophy that shapes the development of marketing capabilities. The study further argue that market oriented companies are good at developing and simultaneously deploying complementary marketing capabilities (such as marketing mix, brand management, and customer relationship management) which ultimately enhance new product success.

However, different views of market orientation-marketing capabilities relationship have been forwarded in the strategic management literature. Morgan, et al (2009) found out that market orientation and marketing capabilities are complementary capabilities where both constructs have direct effect on performance. Similarly, Day (2011) also suggested

that the relationship between market orientation and marketing capabilities should be viewed as reciprocal where market orientation affects marketing capabilities and vice-versa.

In summary, marketing capabilities are strategically important capabilities of firms that allow them to build and sustain competitive advantage. Such capabilities are developed through a learning process by improving the marketing mix, the marketing plan, market sensing capabilities, brand management, and customer relationship management practices (Slater & Narver, 1995; Theodosiou, et al, 2012). Recognizing this fact, the present study investigates the internal determinants that affect the development of marketing capabilities and the interaction of marketing capabilities with strategic orientations (i.e., market orientation and innovation).

2.7. Innovation, Market Orientation and Marketing Capabilities

Interactions

As mentioned earlier, strategic orientation is a high level construct which involves different orientations that shape the behavior of organizations. Such orientations include innovation, market orientation, entrepreneurial orientation, technological orientation, and employee orientation.

The performance impact of market orientation has been extensively explored. However, market orientation is not the only viable strategic orientation (Noble, Sinha & Kumer, 2002). Recently, academic studies have been suggesting the benefits of using different orientations together rather than one strategic orientation (Noble et al, 2002; Grinsten,

2008; Urde, Baumgath & Merrilees, 2013; Deutscher, et al, 2015). Based on this, some consider the relationship between strategic orientation in antecedent-consequence logic, such as the effect of market orientation on innovation (Jiménez-Jimenez et al, 2008; Laforet, 2009). Other examined the complementary relationships between strategic orientations, such as entrepreneurship and market orientation (Atuahene-Gima & Ko, 2001); entrepreneurial orientation, learning orientation, innovativeness, and information technology implementation (Hult & Ketchen, 2001; Boso, Cadogan & Story, 2012); brand orientation and market orientation (Urde et al, 2013), competitor orientation, national brand focus, and selling orientation (Noble et al, 2013).

The following section presents the link between market orientation and innovation and the nature of relationships between the two constructs in the literature.

2.7.1. Market Orientation and Innovation

The link between market orientation and innovation is related to the answer to the question ‘Where should firms begin their innovation activities (Berthon, Hulbert, and Pitt, 1999)?’ There are two competing answers to this question (Berthon et al, 1999):

- First, firms should base their innovation strategy on market place factors (i.e., customer requirements and competitive factors), which is known as the outside-in or need generated innovation.
- Second, firms should base their innovation on internal strengths such as technological capabilities, technical capabilities, and other internal favorable

conditions; this is known as technology push strategy or product-, capability-, or means-generated innovation.

A) Product-Oriented View

The product oriented view argue that products precede needs and create their own demand; and as a result, firms should focus on such innovation sources as technology, engineering, inventions and patents, and other forms rather than customers Berthon, et al (1999). Proponents believe that technology has the potential to create markets or influence the market through new products (Scarborough, 1998); inside-out perspective allow firms to provide resources for innovation (Eisenhardt & Martin, 2000); and product orientation has stronger impact on innovation performance (Paladino, 2009).

Authorities in this line of argument criticized the opposite view, market oriented view, as an orientation that hinders developing breakthrough products for emerging markets (Christensen, 2006). A recent study by Saeed, Yousafzai, Paladino and De Luca (2015) examined the impact of inside-out and outside-in orientations on innovation and overall organizational performance and found out that product orientation (or primary focus on internal resources) has strong impact on innovation performance than overall organizational performance.

B) Market-Oriented View

Contrary to the product oriented view of innovation, quite a number of authors, including father of modern management Peter Drucker (1987), argue for the centrality of customers in the strategic decisions and actions of businesses.

No management will do a good job running a company unless it believes in the product or service the company supplies, and unless it respects the company's customers and their values.

According to McKenna (1991), the actions of firms, including their innovation practices, should be based on knowledge of customers because success in today's environment demands a strategic shift from 'changing the mind of customers to fit the product' to 'changing the product to fit customers' preferences or adopting products to fit customer strategies.' Frequent adaptation by changing the product, process, and/or administration should be based on knowledge and experience of the market. Customers are at the heart of every organization; and as a result, organizational functions, culture, and disciplines are working around customers (Deshpande, 1999).

Understanding customers (their characteristics, needs, and preferences) will be at the core of the successful business of the future, because customers are the one who define value and even define the business itself through the demand they place (Webster, 1994).

Market oriented corporate culture is the foundation for successful technical and administrative innovation (Kim & Srivastava, 1998) and innovation capacity (Hurly & Hult, 1998). Similarly, according to Kok and Biemans (2009), innovation is a core process for creating superior customer value through new products, process and administrative practices; and market orientation is a means to gain insight into customer value and competitive advantage, and the effective translation of insights into actions. Customer focus, customer involvement and successful communication with customers enhance new product success by reducing the product's time to market (Feng, Sun, Zhu, & Sohal, 2012).

C) Market-driven and market-driving views

Innovation based on marketplace factors (market driven approach) and break-through innovations based on a company's research activity (market driving approach) are complementary approaches that a market oriented firm can carry out together (Jaworski, Kohli & Sahay, 2000).

In summary, therefore, market orientation should be used together with other strategic orientation such as innovation. Recognizing the position that firms which combine strategic orientations (such as market orientation and innovation) perform better than those adopting only one orientation (Grinstein, 2008; Deutscher, et al, 2015), market orientation and innovation are modeled in this study as complementary orientations that enable firms to gain unique position in the competitive environment. This is because the innovation performance of organizations goes beyond fulfilling evident marketplace requirements (market driven approach) and bring radically new innovation outcomes such as new product, process, etc (driving the market) (Jaworski, Kohli & Sahay, 2000). Therefore, the argument is, a firm can get sustainable competitive position from its market insight and knowledge (market orientation) as well as its innovation activities based on customer feedback and beyond.

2.7.2. Marketing capabilities and Innovation

Marketing capabilities are part of the dynamic capabilities of organizations because managers can build, integrate, and reconfigure marketing related routines/resources (Teece et al, 1997; Eng & Spickett-Jones, 2009).

According to Holtzman (2014) innovation should not only be considered as an event of generating novel business ideas; rather it should also consider the capabilities required for the realization of those ideas.

A considerable number of empirical investigation proved that marketing capabilities, as part of dynamic capability, influence performance of firms via innovation (Eng & Spickett-Jones, 2009). Marketing capabilities influence technical innovation (product and process innovation) and non-technical innovation (marketing and administrative innovation) (Mariadoss, Tansuhaj & Mouri, 2011).

Marketing capabilities as dynamic capabilities assist organizations to configure and reconfigure innovation results (i.e., new product, process, and system) based on marketplace factors (Breznik & Hisrich, 2014). Innovation is the activity of a firm to improve product, process, and system in order to avail sound marketing program that fits changing marketplace requirements.

2.7.3. Marketing Capabilities and Market Orientation

In most studies which involve market orientation and marketing capabilities, the commonly recognized relationship between the two constructs is that market orientation (the philosophy of tailoring marketing operations as per the marketplace situation) determine marketing capabilities (marketing plan and marketing program decisions) (e.g., Vorhies et al, 1998; Theodosiou et al, 2011; Ngo & O'cass, 2013; O'cass & Heirati, 2015)

However, as presented in section 2.6, the literature also show alternative views of the relationship between market orientation and marketing capabilities. Morgan et al (2009)

mentioned that market orientation and marketing capabilities are complementary assets that jointly explain the performance of a company. Elaborating the interaction term in Morgan et al's (2009) model, Day (2011:186) stated that 'the interactive effect is a reciprocal relationship whereby market insights are needed to build marketing capabilities and the exercise of the individual capabilities generates new market insights that enhance a firm's market orientation.'

Interaction effect is a relatively new way of explaining the relationship between market orientation and marketing capabilities which deserves additional empirical evidence.

Hence, in this study, the reciprocal effect of the two constructs is examined.

2.8. Antecedents of Strategic Orientations and Marketing Capabilities

One of the major issues in market orientation research is identifying organizational factors that influence its development (Raajj & Stoelhorest, 2008). Determinants documented in market orientation literature include top management emphasis, interdepartmental dynamics, and organizational system (Kohli & Jaworski, 1993); top management, interdepartmental connectedness, and reward system, of which top management plays a vital role in nurturing market orientation (Jenster & Jaworski, 2000); top management emphasis, interdepartmental connectedness, and market-based reward system (Kirca et al, 2005); attitude of managers toward market orientation and management innovation (Powpaka, 1998); the belief, understanding, and commitment of organizational members (Harris, 1999); age, gender, experience, and education of employees (Kilic & Dursun, 2007); psychological contract with employees, learning agility, and customer contact (Schlosser & McNaughton, 2007); employee training, effective communication systems,

and managing human resources (Conduit & Mavondo, 2001); market oriented values, norms, and artifacts are important antecedents to market orientated behavior (Humburg & Pflesser, 2000); open organizational culture and achievement orientated leadership (Kasper, 2002); market orientated management system including planning, organizing, and human resource management (Backer and Homburg, 1999).

Based on this, the present study investigates the influence of organizational culture, top management emphasis, and employee related factors (employee training and reward system) on the development of market orientation. The following paragraphs briefly describe top management emphasis, reward system and organizational culture as antecedents to market orientation, innovation and marketing capabilities.

2.8.1. Top Management Emphasis

According to Jaworski & Kohli, top managers are in good position to shape the values and orientations of people in the organization. Top management should first value the importance responding to customer needs and becoming alert to competitors actions so they can shape the beliefs and values of others. Top managers shape the institutional value and signal how different groups in organizations define acceptable behavior.

Empirical studies also confirmed that top managers' or leaders' values are antecedents to the development of important orientations. Several dimensions of top management are examined including emphasis and risk aversion of leaders (Jaworski & Kohli, 1993); leadership styles such as participative and supportive (Harries & Ogbonna, 2001); ability and commitment of leaders to develop market oriented culture (Changanti & Sambharya,

1987); sets of personal values (openness to change, conservation, self-enhancement, and self-transcendence) (Gao and Bradley, 2015).

2.8.2. Employee Training

Prior studies widely proved that successful training program has positive impact on organizational performance (e.g., Tharenous, Saks & Moore, 2007). The meta-analytic study of Tharenous et al., (2007) indicated that training primarily enhances employees and managers' skills and competencies, attitudes, behaviors and motivation.

Customer and competitors oriented mindset as well as the ability to do market orientation activities can be acquired through training; and such competencies and behaviors are important for managers because managers are in good position to adapt and develop market orientation (Jaworski & Kohli, 1993; Lings & Greenley, 2009). Similarly, employees also need training primarily to understand the essence of strategic orientations (market and innovation orientations) and then identify and successfully discharge their responsibilities in a market oriented organization (Conduit & Mavondo, 2001).

Hence, training is one of the human resources management practice designed to enhance market orientation and as a result, it should be designed based on the current and future training needs of managers and employees to enable them perform activities at a higher level of performance and adapt their practices to continuously changing marketplace conditions (Gounaris, Vassilikopoulou, & Chatzipanagiotou, 2010).

As an internal market orientation component, the formal training design as well as the practices of influencing behavior through role modeling should be managed in line with

developing market orientation and doing marketing practices (Schlosser & McNaughton, 2007). Therefore, systematic way of managing organizational dynamics and managerial actions are suggested for successful training program (Conduit & Mavondo, 2001).

In line with this, prior studies modeled training as one of the main determinants of adapting and developing market and innovation oriented culture and behavior (Gounaris, et al, 2010). Accordingly, the present study also considered training as antecedent to develop market orientation and enhance the capability of employees to implement marketing strategy and program.

2.8.3. Reward System

Successful implementation and development of strategic orientations requires linking performance appraisal and reward systems of managers and employees to long-term achievements of organizations (Schneier, 1989; Heneman, Fisher & Dixon, 2001; Nyberg, Pieper & Trevor, 2013).

Reward system has sustainable impact on the motivation of employees when it is related to intrinsic motivators such as long term advancement, growth, growth accomplishment, and self-expression rather than short term compensation upon the accomplishment of a certain task (Wei & Atuahene-Gima, 2009; Cho & Perry, 2012).

From the view point of developing market orientation and marketing capabilities, studies show that rewards should be associated with the performance of managers and employees to understand and meet customers' needs and continuously detect and respond to changes in the competitive environment (Jaworski & Kohli, 1993; Wei & Atuahene-Gima, 2009).

The findings of these studies are consistent with the fact that success in the competitive environment by satisfying customer needs better than competitors is a strategic long-term goal of businesses (Kotler & Keller, 2012) and aligning performance management and reward system to this goal is a sound managerial practice (Heneman, et al, 2001; Nyberg et al, 2013).

2.8.4. Organizational Culture

The influence of organizational culture on all managerial practices, including customer value creation, has been confirmed (Osarenkhoe, 2008). Ravasi and Schultz (2006) define organizational culture as ‘a set of shared mental assumptions that guide interpretation and action in organizations by defining appropriate behavior for various situations.’ Culture is an organizational attribute that can be shaped. Trying to improve organizational performance without considering organizational culture is unthinkable and consequently, different innovations or change initiatives have failed due to overlooking this important factor (Cameron & Quinn, 2006).

Different models have been used to explain the effect of culture on the performance of organizations. Some of the popular models are discussed briefly as follows.

(a) Schein Model of Organizational Culture

According to Schein (2004:4) organizational culture is a dynamic phenomenon that can be created, embedded, evolved, and ultimately manipulated. The author formally define organizational culture as

a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.

This model is the widely cited with high degree simplicity (Dauber, Fink and Yolle, 2012). The model consists of three levels where a culture can manifest itself to the observers. The levels are Artifacts (Visible organizational structures and processes), Espoused Beliefs and Values (Strategies, goals, philosophies), and Underlying Assumptions (Unconscious, taken-for-granted beliefs, perceptions, thoughts, and feelings) (Schein, 2004). Despite the simplicity to conceptualize culture, the model has two limitations (Dauber et al, 2012). First, the oversimplification of the model limits its ability to examine interdependencies between culture and other organizational domains such as strategy, structure, and operations. Second, the model didn't include the external influences. Because of its focus on the internal environment, Schein model didn't explain organizational culture from the view point of marketplace factors (i.e., customers and competitors).

(b) Homburg and Pflesser Model of Organizational Culture

Homburg and Pflesser (2000) developed a multilayer model that explains market-oriented organizational culture and the impact of such culture on organizational performance. The main argument is that market orientation or the implementation of the marketing philosophy is supported by distinct values, norms, artifacts, and market oriented behavior. The study operationally defines the concepts as follows.

- First, values refer to individuals or groups' selection from available modes, means, and ends of action. The model identified openness of internal communication and responsibility of the employees as examples of shared basic values.
- Second, norms are defined as expectations about behavior and they are relatively specific and more relevant to actual behavior. Examples of norms shared by people in market oriented companies include openness of market-related internal communication and market-related responsibility of the employees.
- Third, artifacts refer to stories, arrangements, rituals, and language that are created by an organization. The nature of artifacts influences the level of market orientation. The nature of artifacts can be explained by exceptional managerial behaviors and ideal customer service by employees (stories), pleasing and welcoming physical arrangement, events for customers (rituals), and customer-focused discussion style (language).
- Fourth, behavior refers to the actions that should be taken in order to develop market orientation. Such actions include intelligence generation, dissemination, and responsiveness (Kholi & Jaworski, 1990).

Homburg and Pflesser's contribution to the market orientation literature is notable because the model explains unique cultural attributes required of developing market orientation and it also attempts to link organizational culture to performance. The model has also made contribution in terms of clarifying the ambiguities in defining market orientation as a culture by Narver & Slater (1990). The Narver and Slater model define

and measure market orientation in behavioral terms and has no consideration of fundamental components of a market oriented culture (Homburg & Pflesser, 2000; Gonzalez-Benito & Gonzalez-Benito, 2005). However, studies also show the limitations of multilayer model as follows (Dauber et al, 2012): first, the effect of culture on performance is linear and the model does not indicate interaction effect; second, the dynamic nature of culture is not indicated; third, the model cannot handle the effect of external environmental factors.

(c) Competing Values Framework of Organizational Culture

Competing Values Framework Model is one of the cultural models designed to identify dimensions that lead organizations to effectiveness. Cameron and Quinn (2006) stated that there are key criteria or factors that indicate organizational effectiveness and these criteria can be applied to group organizations into different cultural groups. Organizations in each group reflect their values, leadership styles, language and symbols, procedures and routines, and how they define success.

The model is developed based on two dimensions which are used to categorize organizational effectiveness indicators into four major categories. The first dimension is used to differentiate effectiveness criteria that focus on flexibility and dynamism from those focusing on stability and control. The second dimension differentiates indicators that show internal orientation from those indicating external orientation. The two dimensions together can be used to identify four cultural types each exhibits values judgments that people are made about organizations (Cameron & Quinn, 2006). The two

ends of every dimension shows competing assumptions and that is the reason why the model is called ‘competing value model.’

Each of the core cultural types represents basic assumptions, orientations, and values.

Cameron and Quinn (2006) described the four types of culture (Figure 2.5) in terms of dominant characteristics of an organization, leadership style, and management of employees, organizational glue, strategic emphases, and criteria of success.

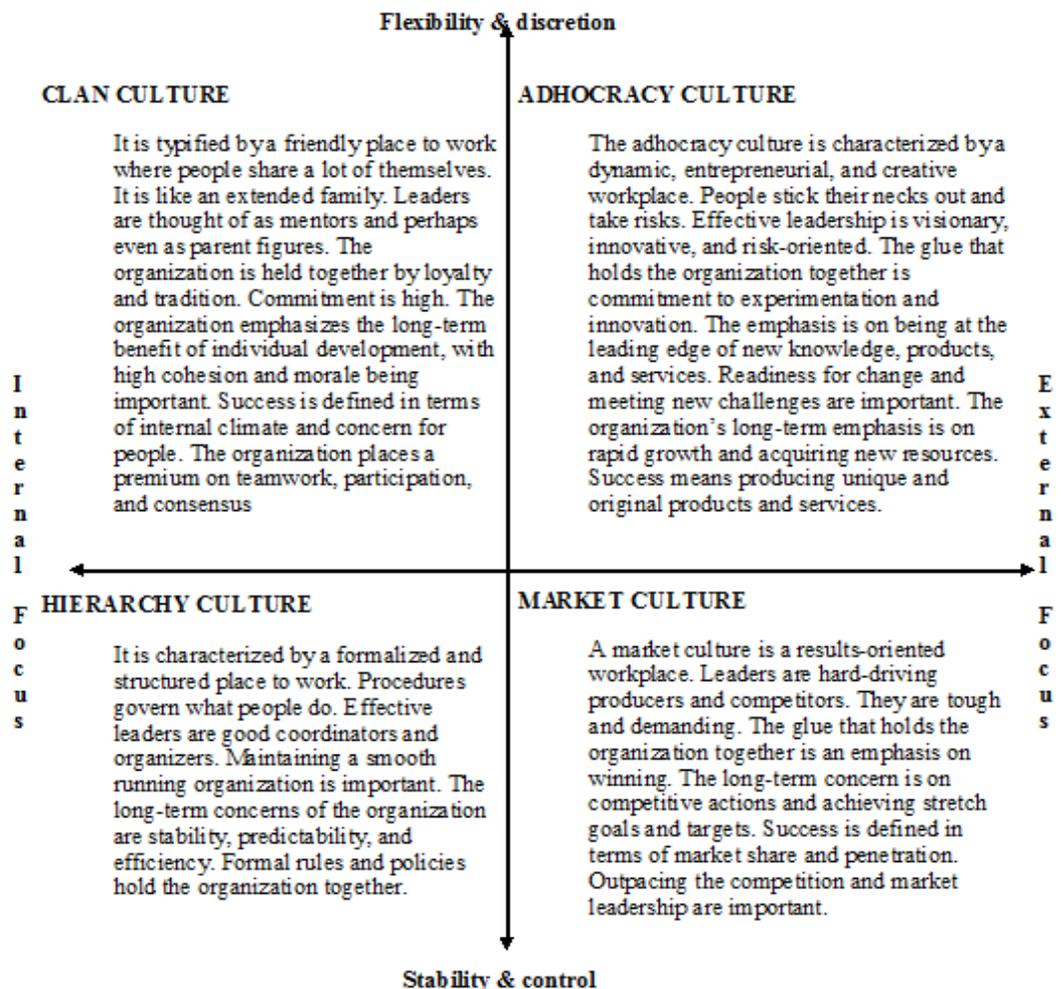


Figure 2.5 The Competing Values Framework
(Source: Cameron and Quinn, 2006)

The framework has been used to identify the dominant type of culture and then explain how the orientation associated with that culture influence strategy and performance. Competing values framework has been used in various organizational processes and outcomes. For example, the framework is applied to investigate the satisfaction of companies' customers (Ancarani, Mauro, & Giammanco 2009; Lund, 2003), organizational effectiveness (Gregory, Harris, Armenakis & Shook, 2009), knowledge sharing among projects in project based organizations (Wiewiora, Trigunarsyah, Murphy & Coffey, 2013), to chose quality management technique (Gambi, Gerolamo, & Carpinetti, 2013), to determine the interplay between organizational and national culture (Dastmalchian, Lee & Na, 2000) and in many other situations.

Competing value framework has also been used widely in market and innovation orientation studies. Deshpande and Farley (2003) examined how organizational culture, market orientation and innovativeness affect performance in different national cultures using competing values framework. Studies also show that level of managers' perception of market orientation is also determined by the type of culture, and culture that encourages adaptability, cohesiveness, participation and sense of family is favorable culture for the development of market orientation (Yaprak, Tasoluk, & Kocas, 2014). Narver et al (1998) also stated that favorable organizational culture is a promoter for the consistence occurrence of market orientated behavior and such market orientated culture can make unique firm resource.

Similarly the model has also wider application in innovation such as determining the impact of organizational culture to predict innovation climate (Alas, Ubius & Gaal, 2012) and culture as determinant of innovation practices (Büschgens, Bausch & Balkin, 2013).

Although the framework provides systematic way of explaining the impact of organizational culture on performance, subsequent empirical studies suggested important updates (e.g., Lukas, et al, 2013).

Lukas et al (2013) stated that the existing models are not broad enough to incorporate customer needs and suggested a model that recognizes ‘customer orientation as a distinct form of culture that coexists with cultures in the competing values framework.

‘According to the study, aligning cultures oriented towards creativity and innovation (adhocracy culture) and a culture with competitive mind set (market culture) with competitor orientation can reduce overshooting customer needs.

Therefore, this study applied competing value framework to examine the culture of target organizations and explain how culture affects the development of market and innovation orientation. In harmony with Lukas et al (2013), the present study consider customer orientation (as an element of market orientation) as a distinct culture that exists independently from the cultures in the competing values framework. The two cultures, the cultures in the competing values framework and customer orientation, are modeled in cause and effect relationship where the cultures in the competing values framework are antecedents to the customer orientation culture.

2.9. Competitiveness

Competitiveness is a complex subject that has been studied via different conceptual approaches. For example, alternative to Adam Smith's view that "wealth is set by endowments," Micheal Porter introduce theory of competitiveness which argues that "wealth is created by choices (Porter, 1990)." Different strategic management schools also defined competitiveness differently (Connor, 2003). Competitiveness is result of matching organization's competences to external openings (planning school); it is the effort to understand and respond to environmental complexities (learning school); competitiveness is achieved by understanding market structure and identifying differentiated position in an industry (Positioning school); and competitiveness is the result of the development, acquisition, and deployment of scarce resources and skills (Resource Based View). Because of such diverse views, the competitiveness construct has been conceptualized in various ways to fit different research contexts.

Beyond the variations in approach to define competitiveness, its operational meaning also varies in terms of scope. Accordingly, competitiveness can be defined at country, industry, or firm level. At national level, competitiveness of a nation is measured, for example, in terms of change in net exports and the transfer of investment (Zhao, Zhao, Zeng & Zhang, 2015). At industry level, competitiveness is defined as "possessing competitive advantage relative to the best worldwide competitors (Porter, 1990:25)."

At firm level, different dimensions have been used by researchers to explain the level of competitiveness. Firm level-level competitiveness is of interest among researchers,

policy-makers and managers because, as Porter (1998) pointed out, “It is the firm, not nations, which compete in international markets.”

According to Laureti and Viviani (2011), defining firm competitiveness is challenging because 1) it is a multi-perspective construct which creates difficulty to cover all aspects of it in a study; and 2) firm level competitiveness can be defined either in relative terms (i.e., how one firm is compared to another in terms of competitiveness indicators) or as a multi-dimensional construct (i.e., measuring the attributes or qualities of competitiveness).

Similarly, Buckley, Pass and Prescott (1988) classified measures of competitiveness into three distinct categories: 1) measures of competitiveness performance (e.g., profitability, growth, and market share); 2) measures of competitiveness potential (e.g., access to cheaper raw materials and cost competitiveness); and 3) measures of competitive process or the ability to convert competitive potential into competitive performance (e.g., commitment to international business).

Competitiveness as a relative performance indicator is defined as the ability to design, produce and market products superior to those offered by competitors, considering the price and non-price qualities (D’Cruz, 1992).

Different measures or indicators of competitiveness have been identified in strategic orientation studies. For example, Ambastha and Momaya (2004) measured competitiveness using finance, market share, differentiation, profitability, price, cost, product range or variety, efficiency, value creation, customer satisfaction, and new

product development dimensions; Zhao et al (2015) identified firm competitiveness indicators such as productivity, product quality, improved innovation, changes in production cost, reduction in regulation compliance costs, product image improvement, shareholder satisfaction increases, market share gains, and product differentiation; and Pace and Stephan (1996) and Irina (2000) define competitiveness as the ability of the organization to ensure sustainable operation and able to earn a return out of its investment.

However, which measure/s/ provide acceptable measurement result is still a debate in the strategic management literature. Consequently, the issue of identifying, classifying and evaluating performance indicators has got significant attention in the strategic management literature.

As González-Benito and González-Benito (2005) pointed out performance measures have been classified into a) effectiveness (which refers to achievements such as customer satisfaction, image and reputation, sales, market share, and new product success) and efficiency (refers to success in resource allocation such as profitability and ROI) criteria; b) financial (accounting measures such as profit or sales) and operational (factors that might lead to financial performance such as customer satisfaction, quality, market share, and new product development) measures; and c) objective (financial indicators obtained directly from organizations records) and subjective (the judgmental assessment of respondents).

Classification of measures of performance into objective and subjective divisions seems logical to properly evaluate the quality of the measurement process via identifying the strength and weaknesses of each approach (González-Benito & González-Benito, 2005).

As a result, the objective measures (using performance reports of organizations) provide performance information which is not judgmental and biased. On the other hand, the accessibility and reliability of the data are the most serious limitations mentioned in the literature. Subjective measures (the judgment and evaluation of qualified respondents) are the dominantly applicable measurement approach in the strategic orientation studies (market and innovation orientation) in spite of the fact that it is judgmental. Many reasons are mentioned by prior studies (González-Benito & González-Benito, 2005): 1) the approach facilitates the measurement of complex dimensions such as customer satisfaction; 2) facilitates the measurement of performance of an organization relative to competitor's performance or organizational objectives; 3) respondents evaluation can also take the lagged effects and company strategies into account.

Table 2.2 presents summary of competitiveness performance indicators that have been used in market orientation, innovation, and other strategic orientations studies.

Table 2.2 Measures of organizations performance in strategic orientation studies

Study	Performance Indicators	Nature of indicators (subjective vs. objective; relative vs. organization specific evaluation)
Hooley et al. (1990)	ROI; and measure relative to major competitors	Use of objective, subjective, and relative measures together
Narver and Slater (1990); Slater and Narver (1994)	Subjective single measure of ROA in principal served market segment over the past year in relation to all other competitors	Measures are subjective and relative
Deshpande´ et al. (1993)	Average responses of two marketing executives are used to evaluate profitability, market share and growth rate in comparison with the largest competitor.	Measures are subjective and relative
Jaworski and Kohli (1993)	share of the served market and overall performance relative to major competitors, over the past year	Objective, subjective, and relative measures of performance are applied
Deng and Dart (1994)	overall performance, liquidity, sales, market share, penetration, export, development of new products and new markets, quality, productivity, and expectations over the previous three years	Subjective measures of performance are used

Greenley (1995)	Subjective measures of ROI, new product success and sales growth over the last 3 years, relative to those of major competitors	Measures are subjective and relative are used
Fritz (1996)	competitiveness, customer satisfaction, continuance of the firm, and long-term profitability in relation to objectives within the last 3 years	Subjective and relative measures are used
Llonch and Walin'o (1996)	ROI, ROS, sales growth and overall performance in relation to competitors over the last 3 years	Subjective and relative measures are used
Appiah-Adu (1997)	sales growth, new product success rate and return on investment over the previous 3 year period in relation to all other competitors	Subjective and relative measures are used
Pelham (2000)	The firm's president evaluation of effectiveness (based on relative product quality, new product success and customer retention), growth/share (sales level, growth rate and target market share, and profitability), and ROI	Subjective measures are applied
Tay and Morgan (2002)	business performance (based on market share, ROI, new services, etc. relative to competitors, and marketing performance) and marketing performance (based on firm awareness and customer satisfaction) relative to competitors.	Subjective and relative measures are used
Calantone, Garcia, and Droge (2003)	new product development performance based on profit, sales and market share relative to objectives in the last year	Subjective and relative measures are used
Hult et al. (2003)	market share, growth, profit and size relative to major competitors and overall performance relative to competitors	Subjective and relative measures are used
Deutscher, Zapkaw, Schwens and Kabst (2015)	Profit growth, sales growth, market share growth, and employee growth relative to competitors	Subjective and relative measures are used
Qu and Zhang (2015)	Overall performance, satisfaction, and growth	Subjective and relative measures are used

In summary, competitiveness of manufacturers, as an outcome variable, is chosen in this study for two reasons: first, competitiveness is more critical to measure manufacturing performance than other measures because competitiveness indicates the position and sustainability of a firm in a rapidly globalized business environment; second, innovation-performance linkage is best explained using competitiveness as performance indicator because innovation is the primary driver of competitiveness (Deloitte GMCI, 2013) and it is the means to enhance long run standard of living (GCR-WEF, 2011-2012).

As indicated in Table 2.2, subjective and relative measures of performance have been used widely in market and innovation orientation studies because of the merits of subjective measures over objective measures. Therefore, in this study, subjective and relative measures based on firms' productivity, market share, ROI, and market development are used to determine the competitiveness of manufacturers in Ethiopia.

2.10. Conceptual Framework

Market Oriented Innovation (MOI) framework, a framework tested in this study, is developed based on empirical studies reviewed in the preceding section. In this section, constructs used in the framework such as Market Orientation (MO), Marketing Capabilities (MC), Innovation and Competitiveness are described briefly by citing empirical evidences to justify hypothesized relationships in the framework.

2.10.1. Determinants of Strategic Orientations

A. Determinants of Market Orientation

As discussed in section 2.4, market orientation has been defined from cultural, behavioral, and capability perspectives. Section 2.4 also discussed the argument and operational meaning of market orientation under each perspective. The present study defined market orientation from cultural perspective to include customer orientation, competitor orientation, and inter-functional coordination (Narver & Slater, 1990). Though Narver & Slater argued their definition of market orientation has cultural meaning, in actual sense, market orientation is measured in the study using behavioral measures of the construct (Homburg & Pflesser, 2000). To empirically address these contradictory views, Narver and Slater's conceptualization of market orientation is considered in this study as behaviorally oriented definition and types of organizational culture (clan, adhocracy, market and hierarchy) as antecedents to market oriented behaviors of organizations. The purpose is to examine how the dominant values and believes in an organization (type of culture) influence organizational practices in response to marketplace situations (market orientation).

Hence, type of organizational culture is modeled in this study as one of the determinants of market orientation. Culture as antecedent to market orientation has strong empirical basis. Attitudes, values and believes hold by a company (e.g., the value that customer satisfaction enhance long-term positional advantage) facilitates the identification and implementation of activities and processes (González-Benito & González-Benito, 2005). In addition, the emphasis of top management is recognized as important determinant of

marketing actions (Jaworski & Kohli, 1993). Organizational culture has a pervasive impact on organizational strategy and practices (Mavondo & Farrell, 2003). Long-term oriented culture is antecedent to market orientation (Hwang, Chung, & Jin, 2013). The strategic emphasis of adhocracy culture (i.e., innovation and growth) and market culture (i.e., competitive advantage and market superiority) are favorable orientations to be market oriented and improve firm performance (Deshpande & Farley, 2004). Kasper (2002) also indicated that market culture (that exhibits clarity in marketing goals and strong drive to create superior values) is a favorable condition to develop market orientation.

Therefore, based on these empirical evidences, the following is hypothesized.

H1: Types of organizational culture have a positive/negative impact on firms' market orientation

H1a: Clan and hierarchy types of culture affect market orientation negatively.

H1b: Adhocracy and market types of culture affect market orientation positively.

Developing market oriented culture and behavior is also influenced by such organizational factors as top management emphasis, employee training, and the reward system of a company (Jaworski & Kohli, 1993). Subsequent empirical studies, following the work of Jaworski and Kohli, proved that these intra-organizational factors have impact on market orientation (e.g., Avlonitis & Gounaris, 1999; Kirca & Hult, 2009). These empirical evidences underpin the formulation of the following hypothesis.

H2: The development of market orientation is influenced by top management emphasis on market orientation, nature of employee training, and reward system of the organization.

H2a: The greater top management emphasis on market orientation, the greater the company's customer orientation, competitor orientation, and inter-functional coordination.

H2b: The greater employee training program of a firm is tailored to marketplace factors, the greater its customer orientation, competitor orientation, and inter-functional coordination.

H2c: The greater the reliance on market-based factors for evaluating and rewarding managers, the greater the company's customer orientation, competitor orientation, and inter-functional coordination.

B. Determinants of Innovation Performance

Getting viable competitive position through creating superior customer value is possible by developing innovation capacity (Day, 2011; Hurly & Hult, 1998). The ability of an organization to improve its product/services, processes, and managerial performance is influenced by many firm specific factors one of which is type of organizational culture (Naranjo-Valencia & Sanz-Valle, 2011). Ahmed (1998) also clearly pointed out that the most innovative firms of the future are those which are created appropriate culture and climate. Because of the importance of culture to develop and implement innovation

strategies, the impact of culture on innovation has been addressed extensively in the literature.

The type of organizational culture (i.e., clan, adhocracy, market, and hierarchy) has impact on the development of innovation in spite of the fact that the findings regarding the impact of each type of culture on innovation is heterogeneous depending on the variations in the investigation circumstances. Prajogo and McDermott (2011) found out that developmental (adhocracy) culture is important predictor of performance in product quality, product innovation, and process innovation. Similarly, Obendhain and Johnson (2004) found adhocracy culture or having a balanced proportion of clan, adhocracy, market and hierarchy types of culture as suitable cultural environment to perform innovation activities. Hierarchy and market types of organizational culture-because of their emphasis on control, order and stability- have negative impact on job satisfaction of employees (Lund, 2003), which again affects their innovation performance. Valencia, Valle, and Jimé'nez (2010) found out that hierarchy type of culture is more appropriate for imitation and adhocracy culture is appropriate for innovation.

Based on this the following hypotheses are developed:

H3: Type of organizational culture positively/negatively affects innovation performance of a firm.

H3a: Adhocracy culture which is oriented toward flexibility, growth, and dynamism is positively related to innovation performance.

H3b: Hierarchy culture which emphasizes control, formalization, and stability is negatively related to innovation performance.

2.10.2. Determinants of Marketing Capabilities

Marketing capabilities involve application of knowledge and skills to properly utilize resources and then solve marketing related problems (Vorhies, et al, 1999). Repeated application of knowledge and skills in solving problems plus developing productive coordination between people, and between people and resources are the bases to develop marketing capabilities. Hence, marketing capabilities, the ability to solve problems through proper and coordinated utilization of knowledge and skills, vary from organization to organization depending on the conditions of firms.

Marketing capabilities literature identified different organizational determinants that affect the development of marketing capabilities. Eriksson (2014) mentioned flexibility and collaborative capability as determinants of development of dynamic capabilities such as marketing capabilities; Merrilees, Rundle-Thiele and Lye (2011) found market oriented value system and management capability as enablers for building marketing capabilities; Nasution and Mavondo (2008) mentioned human resource practices (such as upgrading the skills of employees through training and motivating them through proper reward system) are viewed by managers as determinants of marketing capabilities; Trez and Luce (2012) found inter-functional coordination, which is part of organizational structure decision, as important antecedent to marketing capabilities because marketing decisions (such as new product development) require specialized managerial expertise and skills. Slater, Olson, and Finnegan (2011) found the different types of organizational culture

(i.e., clan, adhocracy, market and hierarchy) as sources of norms for successful implementation strategies and marketing programs.

Hence, the culture, structure, and human resource practices are necessary antecedents of marketing capabilities. Based on this, the study posits the following hypotheses:

- H4:** Nature of employee training, reward system, and types of organizational culture positively/negatively affect marketing capabilities.
- H4a:** Employee training program of a firm, which is tailored to marketplace factors, positively affect marketing capabilities.
- H4b:** Evaluating and rewarding managers and employees based on market factors positively affects marketing capabilities.
- H4c:** Clan type of organizational culture, because of its emphasis on developing employee commitment and morale, positively affect marketing capabilities.
- H4d:** Hierarchy type of organizational culture, because of its excessive reliance on rules and regulations, negatively affect marketing capabilities.
- H4d:** Market culture, because of its emphasis on goal achievement and competitive advantage, positively affect marketing capabilities.
- H4e:** Adhocracy culture, because of its emphasis on innovation, adaptability, and entrepreneurship, positively affect marketing capabilities.

2.10.3. The link between strategic orientations and marketing capabilities

A. The relationship between market orientation and marketing capabilities

As discussed in section 2.7.3, market orientation has long been recognized as organizational value and believes that shape marketing program of a firm. The other dimension of thinking in the strategic management literature is that the implementation of marketing program can provide insight to develop market orientation. Taking these two perspectives together, prior studies conclude that the relationship between market orientation and marketing capabilities is interactive (Morgan et al, 2009). This is to mean that market orientation (as antecedent to marketing capabilities and as a companywide value) provide norms for successful implementation of marketing program; and marketing capabilities (as antecedent to market orientation as a practice) provide insights to develop market orientation of an organization (Day, 2011; Morgan et al, 2009).

Hence, based on this the following hypotheses are posited:

H5: The relationship between market orientation and marketing capabilities is interactive.

H5a: Market Orientation influence marketing capabilities positively and significantly

H5b: Marketing capabilities influence market orientation positively and significantly

B. The relationship between innovation and marketing capabilities

Marketing capabilities affect performance through innovation (see section 2.7.2.). Based on this, the following hypothesis is posited:

H6: Marketing Capabilities positively influence innovation.

2.10.4. Impact of strategic orientation on competitiveness

Prior studies broadly confirmed that strategic orientations (market orientation and innovation) affect the competitive advantage of firms. Detailed review of empirical evidences is presented in section 2.9. Based on this, the following hypothesis is posited.

H7: Strategic orientations positively and strongly affect organizations' competitiveness.

H7a: Market orientation affects competitiveness positively and strongly.

H7b: Innovativeness affects competitiveness positively and strongly.

2.10.5. Factors moderating the impact of strategic orientations on performance

Empirical studies discussed in section 2.5.4 and section 2.4.3 indicate that the impact of strategic orientations (market orientation and innovation) is stronger in young and large sized firms than in old and small sized firms. Liu (1995) mentioned the impact of size on the level of market in UK is different from its impact in USA. Large sized businesses are more market oriented than small sized businesses in US and extra large firms are less market oriented than medium sized businesses in UK. Bigsten and Gebreeyesus, (2007)

examined the impact of firm size and age on the growth of manufacturing firms in Ethiopia. According to the study, firms characterized by small size, high labor productivity, high capital intensity, and young age grow faster than those with large sized, less productive, less capital intensive and old firms. This shows that small and young firms perform more innovation activities than old firms.

Hence, firm size and firm age are relevant characteristics that should be tested as control factors in the model. Based on this, the following hypotheses can be posited:

H8: Company size and age affect negatively/positively market orientation and innovation.

H8a: The impact of market orientation on competitiveness is stronger in younger organizations than aged companies.

H8b: The impact of market orientation on competitiveness is stronger in large-sized organizations than smaller firms.

H8c: The impact of innovation on competitiveness is stronger in younger organizations than aged companies.

H8d: The impact of innovation on competitiveness is stronger in large-sized organizations than smaller firms.

The conceptual framework, Figure 2.6, presents summary of the hypothesized relationships.

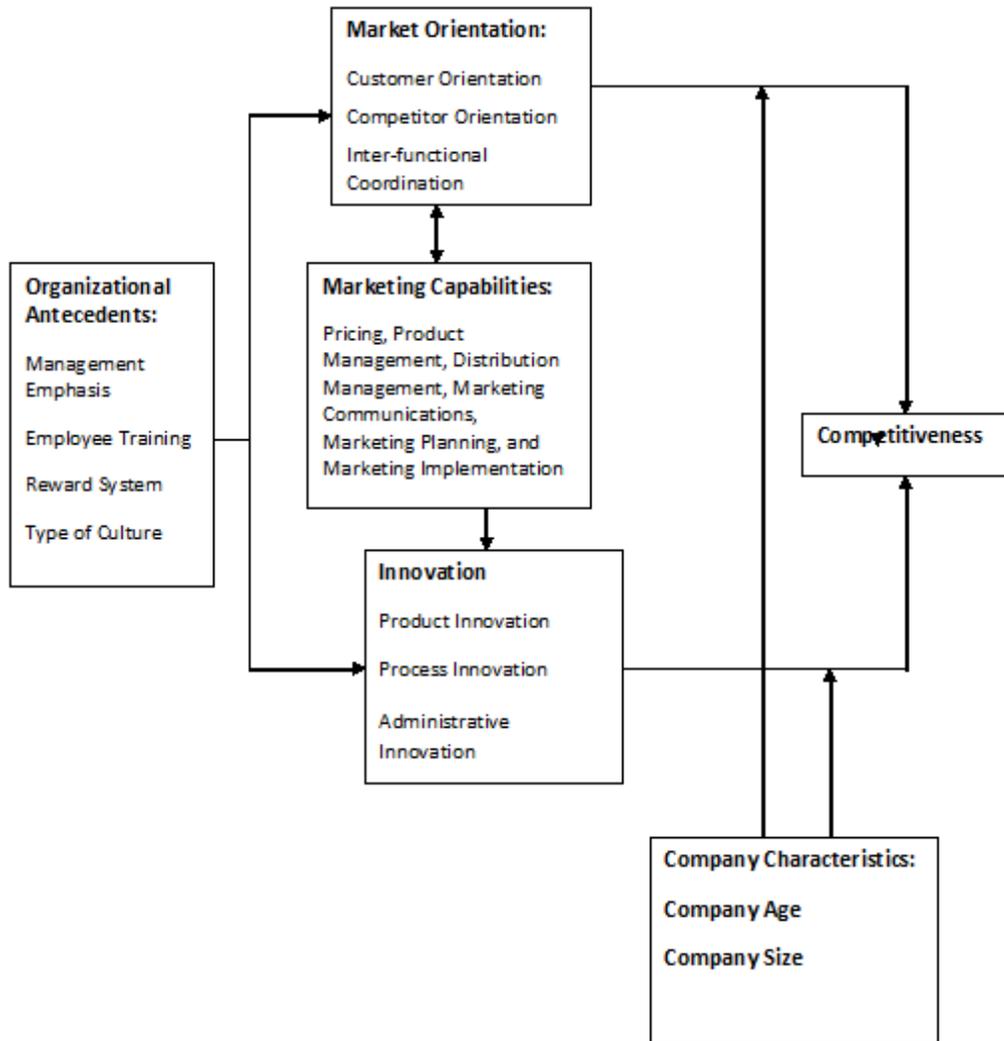


Figure 2.6 Conceptual Framework

(Sources: Modified based on Jaworski & Kohli, 1993; Narver & Slater, 1993; Trott, 2008; Morgan, Vorhies & Mason, 2009; Bigsten & Gebreeyesus, 2007)

2.11. Summary

The strategic management field documented different theoretical perspectives to address the grand question of ‘how organizations achieve sustainable competitive advantage?’ Alternative arguments that have been used to address the question are adequately discussed in the chapter. In addition, based on critical evaluation of major theoretical perspective, the resource based theory is identified as appropriate theory to investigate the ‘impact of strategic orientations on firm competitiveness’ for the following reasons.

1. Understanding and strengthening internal capabilities enable firms to have productive interaction with the external situations and further upgrading capabilities.
2. The emphasis of policymakers, researchers and other stakeholders to develop the sector is on improving infrastructural conditions by ignoring firm-level influencers (Mesquita et al, 2007; Bigsten & Gebreeyesus, 2007). Hence, the study fills this void by examining the impact of internal capabilities on firm performance, especially firm competitiveness.

Taking the argument of resource based view, it is posited in this study that strategic orientations are determinants of firm competitiveness. In line with this, thorough review of empirical evidences on antecedents, complimentary capabilities (strategic orientations and marketing capabilities), and outcome variable (competitiveness) is made in the chapter. The review encompasses presentation and evaluation of definitions of concepts and evidences on the relationship between constructs. In the process of review, competing

views, strengths and limits are adequately identified. Especially, situations where the literature is thin and/or contradictory are clearly articulated and indicated. The main issues observed in the literature include the following. First, the perspectives used to define market orientation do not have distinct status. This confusion is particularly notable in culturally oriented and behaviorally oriented conceptualizations of market orientation. Second, despite integrating perspectives (e.g., cultural and behavioral market orientation dimensions) is found to generate reliable results, the literature is scanty in this regard. Similarly, despite adequate confirmations in the literature regarding interrelationships between market orientation and innovation, treating these orientations as complementary orientations is scanty in the literature. Finally, although the business environment of Ethiopia has unique attributes (as explained in chapter 3), little or no empirical study is conducted to investigate the link between strategic orientations and competitiveness in Ethiopia.

The study, therefore, is designed to address these practical and theoretical weaknesses. The next chapter, chapter 3, presents critical review of contexts (the sub-Saharan African context and the Ethiopian context) where the argument is tested empirically.

Chapter 3

The Manufacturing Environment: Contextual Evaluation

3.1. Overview of the Manufacturing Sector

The word manufacturing is made of three Latin words manu, meaning by hand; facere meaning to make; and faber, or maker. This is to mean that manufacturing is to make products from raw materials by hand or machinery. Broadly, manufacturing is the process of transforming ideas into products and services incorporating activities from research to recycling of products. Manufacturing is a wealth creating sector and it is the base for development of the tertiary sector in most developed economies (SEDA, 2012).

Manufacturing is known as a leading edge of civilization and has been significantly contributing for economic prosperity in terms of creating a sustainable economic ecosystem, encouraging domestic and foreign investment, improving a country's balance of payments, creating good jobs within the sector and outside, boosting a country's intellectual capital and innovativeness (UNCTDA, 2009; Deloitte, 2013; CSA, 2012).

Manufacturing has widely been recognized as an engine of growth (Bigsten & Söderbom, 2006). Recently, however, contradictory views which challenges 'the growth engine hypothesis' have been advanced (Szirmai & Verspagen, 2015). Supporting the contribution of the sector for economic growth, Szirmai (2009) identified nine arguments. First, development of manufacturing sector enhances per capita income; second, productivity or value added in manufacturing is higher than in agriculture; third,

manufacturing is more dynamic than other sectors; fourth, transfer of resources from manufacturing to service creates a structural change burden and it is found out that countries with higher share of manufacturing and lower share of services show faster growth than countries in which service sector is dominant; fifth, the sector provides special opportunities for capital accumulation; sixth, manufacturing sector provides better economies of scale than the service and agricultural sectors; seventh, technological advancements are concentrated in the manufacturing sector and diffused to other sectors; eighth, manufacturing has stronger linkage (backward and forward linkage with other sectors) and spillover (disembodied knowledge flow) effects; and ninth, as per capita income increases, the share of expenditure on manufactured goods increases and participation of countries in the world market increases.

Contrary to the engine of growth hypothesis, Szirmai and Verspagen (2015) found out moderate impact of the sector on the economic growth of developed countries. The study also found out that the contribution of manufacturing for economic growth is high in developing countries with a highly educated workforce. Similarly, Yoshino (2008) found out that manufacturing is a stepping stone for economic progress of low income countries. Based on empirical evidences, World Bank (2015) also strongly recommended to least developed countries like Ethiopia to reallocate their workforce and other resources from less productive agriculture to more productive manufacturing sector. Hence, manufacturing is broadly recognized as main driver of economic growth for Sub-Sahara African countries.

Manufacturing has evolved from an individual handicraft practice to an organizational activity to sophisticated networks of firms transforming raw material into finished products. The equipment used to support manufacturing has undergone a similar evolution from simple tools to systems employing complex technology combinations. The range of technologies and techniques has been growing with a goal of efficiently converting concepts into finished products and services in line with the needs and requirements of customers.

Corresponding to the advancement of machine and process technologies, the sector has also exhibited dramatic progress in management techniques and approaches. Some of the main tools advanced since 1970s include Just-in-Time (JIT) manufacturing, Concurrent Engineering (CE), Total Quality Management (TQM), and the Quick Response System. With the involvement of universities and research centers, further improvements are being carried out in the management techniques and approaches.

The sector has also exhibited changes in managerial orientations. Before the industrial revolution, manufacturers were internally oriented in which product quality and performance was defined by the craftsmen. Since 1980s, manufacturers have been reorienting themselves from craftsmen interpretation of quality and performance (internal orientation) to the interpretation of quality and performance based on customer needs and competitive situations (market orientation) (Narver & Slater, 1990; Kohli & Jaworski, 1990)

However, the technical, managerial, and philosophical developments of the sector are not uniform all over the world (Sazirmai, 2009). Manufacturing sector did not contribute to the economic growth of developing countries until 1950s and it has no contribution to the Least Developed Countries (LDCs) economy until the present time (Sazirmai, 2009; Clarke, 2012). Since 1970s US has taken the leading position in the manufacturing sector. According to United Nations (UN) report (2010), 73.3% of world share of manufacturing is owned by top ten countries, including in rank order, United States, China, Japan, Germany, Republic of Korea, Italy, UK, France, India and Mexico. Recently China is ranked first in terms of manufacturing performance (Levinson, 2015). The rest of the countries in the world have 27.7% share of manufacturing. The share of Africa is extremely low. In sub-Sahara Africa, manufacturing accounted for, on average, 13% of the GDP of countries in the region (Clarke, 2012).

In summary, the recent views of the sector indicate that 1) the contribution of manufacturing for economic growth is vital for least developed and developing countries than countries with advanced economies; 2) advancement of the sector demands improvement in policy, institutional efficiency, infrastructure, educated manpower, innovation capability, managerial competencies, and other internal and external influencers; 3) the very low share of manufacturing in the African countries economy indicates that Africa has been trading ‘nature made products’ in the world trade with little or no value addition. The following section presents overview of Sub-Sahara African manufacturing environment and review facts reported in the literature regarding the internal and external influencers that affect the development of the sector in the continent.

3.2. Manufacturing in Sub-Sahara Africa (SSA)

Sub-Sahara Africa has been identified as a region where the economy is dominated by traditional subsistence agriculture; over two-third of the population is living in rural areas; and the contribution of manufacturing to a country's economy in the region is insignificant (Shifa, 2015; Bigsten & Söderbom, 2010). The GDP and export shares of the sector are also very low compared to its contribution in other similar regions in the world (Clarke, 2012). Most of the manufacturers in SSA are also characterized by primary commodity producers where the value addition is very small. Collier, Hoeffler and Pattillo (2001) mentioned that Africans keep a large share of their wealth (40%) outside Africa. Manufacturers in Africa also lack innovation capabilities that enable them to diversify their products and markets (Yoshino, 2008).

Recently, governments and other stakeholders in the region have been exerting enormous effort to shift towards non-farm sector, especially to the manufacturing sector (Bigsten & Söderbom, 2010). In addition, countries also recognized the need to push the horizon of operation beyond the domestic market and enhancing their global participation.

Manufacturing enables countries to expand their international presence and exploit opportunities available globally. Unlike agriculture, the growth of manufacturing is not constrained by availability of land (Bigsten & Söderbom, 2010).

Although manufacturing is recognized as a key sector for the economic growth of low income countries, its development has been hampered by firm-level and macro-level influencers. Clarke (2012) and Bigsten and Söderbom (2010) identified internal and external influencers. The firm level influencers are capital intensity, educational

attainment and skill levels of workers, firm organization, and management quality.

External forces are factors outside of the firm including burdensome business regulations, weak governance, poor infrastructure, poorly developed financial sector, extensive corruption, less protected rule of law, and lower government efficiency.

Prior studies show that factors outside of the firm have been challenging the development of the sector more seriously. Dinh (2013) and Hailu and Tanaka (2015) identified institutional barriers including price controls, regulations on foreign trade, foreign currency regulations, tax regulations and/or high taxes, policy instability, general uncertainty regarding the costs of regulation poorly functioning legal system, and high rate of corruption and property crimes. Tybou (2003) and Clark (2012) indicated infrastructural and input supply related barriers such as small product market, limited access to manufacturing inputs, scarce human capital, poor infrastructure, thin financial market, and highly volatile macroeconomic environment. Similarly, a study by Elbadawi, Mengistae, and Zeufack (2006) revealed that poor manufacturing performance, especially export performance of manufacturers, is because of policy related factors and economic geography of African countries.

Harrison, Lin, and Xu (2012) reported comparative analysis of the performance of formal African manufacturing firms with firms in another similar region and found out that most Sub-Saharan African firms are at a disadvantageous position compared to other manufacturers in another region because of the following pitfalls:

- Political and institutional pitfalls- ethnic fractionalization, property right protection, and armed conflict. Party monopoly induces fear of expropriation

among entrepreneurs, which again encourage entrepreneurs to invest in low-productive businesses.

- Business environment- factors in this category include poor institutional performance (corruption and expropriation by government officials and criminals), lack of labor market flexibility, and lack of competitive product market.
- Access to finance -access to bank finance and other informal sources is limited

Countries in SSA have been trying to reduce barriers and stimulate the growth of the manufacturing sector by introducing series of policies (Bigsten & Söderbom, 2010). In 1960s, the dominant policy was import substitution. This policy was developed after independence and introduced basically to protect firms at their initial level of learning. However, according to critics, the policy discourages innovation and productivity as domestic firms did not come under pressure because of guaranteed domestic market. In 1980s and 1990s, structural adjustment policies replace import substitutions. Based on this, trade protection was reduced and currencies are devalued. However, structural adjustment program has limitation in terms of exposing weaker companies to global competition.

The literature shows competing views regarding the consequence of reducing protection and then promoting openness. In the one hand, openness is viewed as a source of success as it improves efficiency by reducing managerial slack and using inputs more efficiently; it encourages full exploitation of economies of scale; improve industry productivity through resource reallocation; and improve access to technologies and new methods of

operations (Clark, 2012). On the other hand, openness is viewed as distracter of infant industries in poor countries because of serious foreign competition and hence such industries should be protected (Umoh & Effiong, 2013).

Recently, policy makers are trying to look for ways of participating in the global market by reducing the negative consequences of openness and being closed. Based on this, researchers suggested that Africa can gain sustainable competitive advantage in light manufacturing (Dinh, 2013). Light manufacturing is appropriate for countries in Sub-Saharan Africa because first, the direction is proved to be fruitful in economically successful developing countries such as Mauritius, Vietnam, and China; second, light manufacturing is labor intensive and it allows poor countries to utilize the abundant labor available; and third, light manufacturing save foreign exchange, create rewarding jobs, and develop technical and managerial skills (Dinh, 2013).

There is a huge potential for Africa to develop light manufacturing and gain unique position in the competitive environment for various reasons (Dinh, 2013). Many countries in Africa have advantages in low-wage labor, abundant natural resources, privileged access to high income markets (such as the AGOA arrangement), and sufficiently large local and regional market. Emerging light manufacturers can acquire and develop technical and managerial capabilities (quick-response system, high volume production, and quality control) by developing and implementing strategy to utilize the local and regional markets.

Next to formulating proper policy and reducing institutional obstacles is improving the competitiveness of firms by strengthening their internal capabilities. Manufacturing firms

in Africa are extremely weak in terms of resource availability and capabilities. Firms lack capital equipment, finance, skills of individual employees, and talents of management; and they also lack management capacity to use resources in a way that achieves goals and objectives.

Besides the initiative to improve policies and institutional arrangements, government and other stakeholders are providing assistance to strengthen the resource and managerial capacity of firms. Currently, for example, firms are encouraged by the government to implement modern management approaches (such as Business Process Reengineering and Kaizen) that have been used by industrialized nations (Negussie, Lemma & Assefa, 2013; Desta, 2013). Hence, such efforts need to be backed by scientific investigations. In this regard, empirical investigations should explore the current management orientations and approaches of firms and identification of appropriate managerial models that facilitate future competitiveness of manufacturers.

In summary, the above discussion reveals that 1) though policy intervention is mandatory to reduce institutional barriers, it cannot be productive unless supported by firm-level managerial capabilities as well as capabilities in terms of input availability, access to industrial land, access to finance, trade logistics, entrepreneurial skills, and worker skills (Dinh, 2013) ; 2) the current trend of globalization creates opportunity to strengthen manufacturing firms in terms of organizational assets (human, financial, marketing, systems, and physical assets) and organizational competencies (strategic, functional, operational, individual, and team competencies). Hence, proper organizational orientations facilitate the identification and utilization of such opportunities.

3.3. Manufacturing in Ethiopia

3.3.1. Country Overview

Ethiopia is the second populous country in Sub-Saharan Africa with a total population of 94.1 million, population growth rate of 2.5%, and population below the age of 14 is 44.4% (World Bank, 2015). The country covers an area of 1.14 million square kilometers and has favorable climate, natural resources and historical places that show miraculous ancient civilizations. Ethiopia is a landlocked country which shares borders with Sudan in the west and North-west, South Sudan in the west, Kenya in the south, Somalia in the east and southeast, Eritrea in the North and Djibouti in the east.

Ethiopia follows ethnic-based federalist political structure which assumes that ethnic groups can exercise political power in administering their respective regions and use own language and develop own culture. Based on this, the country is politically structured into 9 regional states and 2 city administrations. Every regional state has its own policy, strategy, and structure to attract investment and promote enterprise development.

Despite Ethiopia is one of the oldest centers of civilization and cradle of mankind, the country didn't sustain such remarkable achievements. Rather, the country has been classified as one of the poorest countries in the world characterized by frequent famine, acute food shortage, extreme poverty, and poor quality of living (World Bank, 2015).

The economy of the country is dominated by agriculture and least value adding service activities. The share of employment of agriculture (77.3% in 2013/14) was the largest share compared to manufacturing and service sectors. The shares of the three sectors to

GDP in 2013/14 are 40.2% (agriculture), 45.5% (services), and 14.3% (industry); the share of manufacturing within the industry sector was only 4.4% (World Bank, 2015).

3.3.2. The Manufacturing Sector in Ethiopia

Modern manufacturing begun in Ethiopia in the 1950s and the sector has got attention from the policy makers since August, 1943 (Zerihun & Alemu, 2013). Since then attempts have been made to develop the sector. According to Gebreeyesus (2013), after certain disruption during Second World War, series of industrial development policies were introduced by the Imperial, Military, and EPRDF governments. The policy directions during Imperial, Military, and EPRDF governments were private sector led import substitution (1950s-1974), state-led import substitution (1974-1991), and export-oriented private sector led policy (1991-present) respectively. Despite the variations in guiding vision, the government role, and ownership structure, the importance of labor intensive manufacturing is emphasized in all of the three regimes.

Currently, the growth and competitiveness of manufacturing sector has got significant attention from the government in its first Growth and Transformation Plan (GTP 1) which covers the years from 2010/11 to 2014/15. The target in GTP 1 was to grow the sector by 22%; however, the actual growth at the end of the plan period was 10.9%. In GTP 2, a plan that covers the years from 2015/16 to 2019/20, government also vow to grow the sector by exhibiting greater commitment to reduce barriers, developing industrial parks, and strengthening Small and Medium Enterprises (SMEs) (Yewondwossen, 2015)

Despite the effort to create enabling business environment at policy level, the desired results have not been achieved. Specifically, no attractive progress has been recorded in the growth and competitiveness of the manufacturing sector (WEF-GCI, 2014-15). Evaluation of GTP1 shows that government didn't meet its growth target of the sector (MoFED, 2015). There are still policy and institutional obstacles that hamper the development and competitiveness of Ethiopian business environment (WB-DBR, 2016):

- Although the investment policy is designed to attract more investors, it is not, in practice, easy to start and operate a business because of bureaucratic and less efficient handling of activities such as licensing, import-export regulations, foreign exchange regulations, getting construction permits, paying tax, and enforcing contract.
- Productive investment areas are not open for the private investors. The policy restricts the participation of private sectors in areas such as defense industries, hydropower generation, and telecommunications services. In addition, some businesses areas such as banking, printing, and small scale businesses are reserved only for citizens.
- Labor related affairs are governed by proclamation 377/2003. However, the policy and its implementation is criticized as inadequate in terms of balancing the interests of employees and employers regarding hiring, employee development, employee benefit, firing and other labor related details.

Generally, the manufacturing sector in Ethiopia has the following characteristics (CSA, 2012, Gebreeyesus, 2013; Frede & Kebede, 2015; World Bank, 2015):

- In terms of size, the sector consists of large, medium, and cottage industries.
- Medium and Large manufacturers are those businesses with 10 or more employees and use power driven machines.
- There are 2,172 Medium and Large manufacturers in Ethiopia in different sub sectors such as food products and beverages (26.3%); tobacco products(0.05%); textiles (1.84%); wearing apparel (except fur apparel) (2.35%); leather products (5.25%); wood, furniture, and cork (18.19)¹; paper products and printing (5.66%); chemicals and chemical products (4.42%); rubber and plastic products (6.40%); non-metallic products (22.19%); basic iron and steel (1.80%); fabricated metal products (7.09%); Machinery and equipment (0.69%); and motor vehicles, trailers & semi-trailers (0.51%). Hence, in terms of sub-sector composition, the sector is dominated by food, beverage, leather, textiles, and apparel industries.
- Although the employment in the sector is increasing (e.g., from 93,737 in 2000/01 to 173,397 in 2010/2011), as of 2012, manufacturing offered below 5% of the total employment.
- Large and medium manufacturing firms are owned by private and public owners.

¹ Manufacture of furniture products and wood products presented here together; whereas the CSA (2012) report the two categories separately.

- Overall, the number of manufacturing establishments is increasing. The number of private establishments shows an increasing trend; whereas the number of public establishments is declined from 143 in 2000/01 to 129 in 2010/11.
- The GDP contribution of the sector was 4.1 in 2014. This figure remained the same in the past decade.
- The sector shows heterogeneous productivity performance where foreign owned, publicly owned, and older firms are more productive compared to domestic, private, and young firms.
- Manufacturing value added per employee as well as per establishment show increasing trend.
- New manufacturing activities such as manufacture of motor vehicles, machinery and equipment show large increase. This shows that the sector is becoming diversified. However, the performance of the sector in terms of diversifying products is inadequate compared to East African countries such as Kenya and Tanzania.
- Most manufacturers have been targeting the domestic market. Currently, however, the global participation of some firms in the leather and textile manufacturing is increasing.
- Though sluggish, there is a trend to shift from low technology to medium and high technology manufacturing.

In summary, the manufacturing environment of Ethiopia is characterized by low-tech, light, labor intensive, and less value adding. Despite the effort to grow the sector,

manufacturers are still at their infant stage to compete in the global environment because of different external and internal factors. The following sections present the external and internal influencers that affect competitiveness of the sector.

3.3.3. External Influencers

The overall economic performance of the country, relative to the economic achievements of the world, shows little progress despite some improvements in the past two decades. According to World Economic Forum (WEF) Global Competitiveness Index (GCI) (2014/15), the country has GDP, GDP per capita, and GDP (PPP) of 48.1, 542, and 0.14 respectively and its competitiveness rank is 118 out of 144 countries. The WEF-GCI ranks of the years 2014-13, 2013-12, and 2012-11 are 127, 121, and 106 respectively, which indicates little progress in terms of competitiveness dimensions. Based on the 6 competitiveness indicators, WEF-GCI (2014-15) reported the following:

Ethiopia moves up to 118th this year, facing challenges across all pillars despite its recent record growth rates. The functioning of its institutions (96th) receives a weaker assessment across almost all indicators, including property rights, ethics and corruption, and government efficiency. Furthermore, the country's goods market (124th) remains inefficient. Ethiopia also requires significant improvements in the areas of infrastructure (125th), higher education and training (131st), and technological readiness (133rd). On a more positive note, this year points to a slight improvement in the country's labor market, although concerns about the quality of labor-employer relations (97th), hiring and firing practices (78th), and the alignment between pay and productivity (99th) remain. Primary education, with a net enrollment rate of 86 percent, is comparatively good (although the quality of primary education requires improvement), and women account for a high percentage of the country's labor force.

The report also mentioned factors that constrained the growth and competitiveness of businesses according to their order of impact as inefficient government bureaucracy, foreign currency regulations, access to financing, corruption, inadequate supply of infrastructure, inflation, tax rates, poor work ethic in national labor force, tax regulations, policy instability, inadequately educated workforce, restrictive labor regulations, insufficient capacity to innovate, poor public health, government instability, and crime and theft.

Empirical studies on the conduciveness of the Ethiopian business environment also identified external influencers that affect the development of the business environment in general and performance of firms in particular.

From efficiency and firm productivity perspective, Hailu, Kidanemariam, Berhe & Tanaka (2015) examined the business environment and found out influencers such as poor quality labor force, inadequate technological capabilities, lack of systematic and mission-oriented worker training programs, lack of modern management practice, and lack of international exposure. The authors further emphasized that firms are not operating at their full capacity because of raw material shortage, erratic electric power supply, and unfavorable government rules and regulations.

The recent discussion held between Prime Minister Hailemariam Desalegn and the business community also revealed critical factors that constrained the growth of manufacturing sector (Hailemariam, 2015). The constraints mentioned at the time of discussion are redundant and time-consuming bureaucracy, destructive interference of the party politics and party membership to the service delivery in government institutions,

and other problems such as supply of well trained workforce, electricity interruption, and expedited provision of land and associated infrastructures.

Because of these, the external conditions are not suitable to attract new manufacturing businesses and even to retain and grow already established ones. Private investors usually prefer to invest in the service sector (e.g., erecting and renting a building) for which the environment is comparatively good. Despite some improvements, Gebreeyesus (2008) reported that 60% of entering firms exit the market within 3 years in business because of unfavorable conditions that are related to policy and other institutional problems.

In summary, factors outside of the firm affect organizations to develop and utilize internal capabilities and then enhance their competitiveness. Especially, government has irreplaceable role in reducing institutional barriers and creating vibrant business environment. For Ethiopia, however, realizing the goal of creating competitive and vibrant business environment remain a big challenge given the limited participation of private sector, unnecessary intervention of government (in the form of owning productive enterprises, organizing party owned and controlled businesses, and creating politically affiliated private businesses), and ethno-linguistic configuration of the country (Belete, 2015).

3.3.4. Internal Influencers

Internal firm-level factors are associated with the resources and capabilities of manufacturing firms. In this regard, strategic management literature has identified and examined many internal determinants of developing capabilities and ensuring competitiveness.

According to Barney and Clark (2007), success of organizations can be affected by the extent to which they develop capabilities such as productivity of employees, application of IT, appropriate organization structure, quality, ability to identify and respond to changes in the market, ability to offer superior products, and ability to develop and implement superior employee development program.

From sustainability point of view, Kaya and Erden (2008) identified internal influencers such as technological know-how, economies of scale, trade mark and brand image, ability to apply effective management practices, speed of responding to consumer demand, ability to adapt to different market condition, and quality of company products.

Others such as Paiola, Saccani, Perona, & Gebauer (2013) argue that success of organizations is influenced by the kind of managerial orientation (e.g., the view that products and activities are solutions to customers' problems).

Paiola et al, (2013) further argue that manufacturers need to reorient their strategies and practices from selling products to providing solutions; and they proposed that organizations should develop capabilities that allow them orchestrating total solutions through providing variety of services at different phases. Implementation of strategic

orientations, on the other hand, requires change in culture, managerial mind-set, employee development and satisfaction, and marketing capabilities (Jaworski & Kohli, 1993; Day, 1994; Appiah-Adu, 1998; Kasper, 2002; Kirca & Hult, 2009; Ngo & O’Cass, 2013).

This section, therefore, presents review of the internal determinants of manufacturers in Ethiopia. Particularly, it addresses topics such as strategic orientations, marketing capabilities, organizational culture, employee training and motivation, and managerial capabilities of manufacturing businesses in Ethiopia.

3.3.4.1. Strategic Orientations and Capabilities

Strategic orientations are the directions implemented by a firm to create and develop behaviors that ensure sustainability and superior performance (Gatignon & Xuereb, 1997). Prior studies identified different firm-level orientations which a company can apply individually or in combination. The strategic orientations include market orientation, innovation orientation, entrepreneurial orientation, learning orientation, production orientation, product orientation and employee orientation (Grinstein, 2008; Kotler & Armstrong, 2012).

As discussed in chapter 2, the orientation chosen by an organization has impact on its operation. Therefore, in order to understand the nature of operations and extent of competitiveness of manufacturers, it is necessary to know the dominant strategic orientation/s/ in the sector. So which strategic orientations are dominant among Ethiopian manufacturers? Do firms possess resources and competencies to effectively compete in a rapidly globalized world?

These and other related questions have not adequately been addressed through scientific empirical investigation. Though inadequate in terms of content and scientific rigor, reports prepared by companies themselves, responsible government agencies (e.g., CSA), development assistance giving agencies (e.g., embassies and NGOs), and the media can give general information about the philosophies, resources and capabilities of organizations.

The strategic direction of businesses in most developing countries is to produce large quantity of a product in response to the supply shortage via increasing capacity utilization and/or expanding economies of scale. This is known as production orientation. Production orientation is common among businesses in the least developed countries because consumers in those countries are more interested in obtaining the product than its features (Kotler, 2003; Patil & Bhakkad, 2014).

The business strategies and practices of Ethiopian manufacturers also take the direction of strengthening internal capacity to increase production with little or no attention to the competitive dynamism and customers changing requirements. A research conducted by Ingenbleek, Tessema, & Trijp (2013) indicated that ‘competitive attitude does not yield rewards in a subsistence economy’ like Ethiopia. Plan documents and reports of manufacturers in Ethiopia revealed that the direction for success is calculating the supply gap and designing mechanisms to fill it. They also calculate future developments in terms of growing number of potential buyers alone. Performance has been measured using rate of capacity utilization, production quantity, and sales volume alone by neglecting competitiveness in terms of quality and performance.

One frequently cited reason for internally oriented strategy of manufacturers is that the business environment of Ethiopia is not sufficiently open for global competition. As a result, domestic firms have guaranteed domestic market, which doesn't encourage them to closely watch the competitive environment and become market focused.

In general, manufacturers in Ethiopia do not provide adequate recognition of challenges from global competitors as well as the changes in the business environment. However, as observed in the progress of high income nations, there is a need to maintain incremental shift in orientation from filling supply gap to filling marketplace requirements.

3.3.4.2. Strategic Competency of Top Level Managers

Strategic competency is the ability of managers to create strategic vision; communicate, motivate, and implement strategy; assesses changing circumstances; and learn and innovate (Drummond, Ensor & Ashford, 2008). Manufacturing companies in Ethiopia are weak in developing and deploying sound strategies and policies and they are also weak in tracking and responding to marketplace requirements in terms of quality and customer satisfaction (Besha & Kitaw, 2014).

Executives of Ethiopian manufacturers lack such competencies for three reasons. First, since the strategic direction is to enhance production quantity, they are more involved in managing operational activities rather than to take time and assess circumstances, learn the environment, and identify growth opportunities. According to Desta, Asgedom, Gebresas and Asheber (2014), managers are spending much of their time managing routine activities. Second, most employees in the manufacturing sector have very low

professional profile; and as a result, managers spend much of their time supervising and guiding operational activities. Finally, managers themselves do not have the training and experience of becoming strategic leaders (Desta et al, 2014; Besha & Kitaw, 2014).

Manufacturers also lack functional competencies, especially the ability to develop successful marketing strategy and program. Regardless of variations in naming (commercial department, sales department, and marketing and sales department), most manufacturers have marketing function as a department. However, looking at the responsibilities assigned to the department and activities of people in the department, one can conclude that marketing is formed as a department to passively take orders and facilitate transactions.

The strategic roles of the department are also undermined by executives. Executive level managers in most manufacturing companies are people with technical competencies such as engineering and chemistry. Because of their educational background, managers a) lack knowledge of the strategic roles of marketing; b) inclined to operational activities than marketing and other activities. As a result, managers devote inadequate time and effort to strengthen the manpower and infrastructural capabilities of marketing department.

3.3.4.3. Culture

Creation and implementation of market and innovation strategies are carried out within the context of an organization not in a vacuum. Culture provides contextual framework for doing organizational activities. Culture is the pattern of shared values and believes that

help individuals understand how an organization functions (Deshpande & Webster, 1989).

According to Cameron & Quinn (2006), organizations are different in terms of degree of emphasis they put on policies and rules, innovation and entrepreneurship, competitive position, and loyalty and internal harmony. It is strongly argued that firms should develop a culture that promote competitiveness and entrepreneurial spirit to be successful in today's ever changing and rapidly globalized business environment (Deshpande & Farley, 2004). Lederman, Messina, Pienknagura and Rigolini (2013) also argued that the innovation performance of firms (such as introducing new product, improving internal processes, and receive patents) can be improved by introducing and developing entrepreneurial culture in addition to having good management practices and producing skilled managers and technicians.

Following the nationalization of privately owned manufacturers in 1975 by the military government, centralized administration of factories was introduced (Mekonnen, 2013:184). Based on this, the then ministry of industry developed policy documents, structure, and manuals to be implemented by nationalized factories. There was also very close follow up and guidance to apply policies and rules. Hence, manufacturers began developing a hierarchy culture which put greater value for adherence to policies and rules.

The influence is still visible, especially in publicly owned manufacturers. Formalizing operations and implementation of policies and rules have been valued more than valuing open mindedness, flexibility, and competitiveness mind-set among Ethiopian manufacturers today. Since decision making in most organizational structure of

manufacturing businesses is centralized and hierarchical, there is no room for employees and divisions at the lower level of the hierarchy to become more market oriented and innovative (Desta et al, 2014).

But, today, the need to build a culture that promotes innovation and entrepreneurship is recognized, at least as a principle, among manufactures, the government and other stakeholders.

3.3.4.4. Employee Training

High quality workforce is a critically important input in the process of building competitive firms because competent employees enable firms to ‘respond flexibly to rapid economic and technological change, to produce higher-quality products, to adopt and improve on new production processes and technologies, and to develop new skills as the structure of jobs evolves (Nabi& Luthria, 2002:101).’

Employees in most Ethiopian manufacturing firms are unskilled and have low professional profile. Lack of well trained manpower is one of the serious challenges that limit the competitiveness of manufacturers (Desta, 2014:146):

Currently, the Ethiopian manufacturers are at a disadvantage in the international market due to the preponderance of unskilled human resources, the scarcity of capital and differentiated management tools, and the lack of knowledge-based technology.

In the global competitiveness ranking, Ethiopia ranked 131 out of 144. This shows that the performance of higher education and training program of the country is lower in terms of producing quality workforce to the labor market (WEF-GCI, 2014/15). One of the

challenges for the development of manufacturing sector in Ethiopia is supply of well trained workforce.

World Bank (2015) fourth economic update identified seven constraints that hinder the development of manufacturing sector. Acute shortage of literate and trainable workforce is one of the factors.

A more literate and trainable labor force would not only increase productivity in Ethiopia, but also make the country more attractive to international firms seeking to invest in Africa. Yet, skills shortages in Ethiopia constitute a key constraint to growth and improved productivity in the manufacturing sector despite the country has made significant progress in expanding access to education.

However, making improvement on the general education system alone is not adequate. In addition to the policymakers' effort to improve the quality of workforce, firms need to design and implement sound training strategy to increase productivity and reduce technology absorption costs. However, manufacturers in Ethiopia do not have systematic ways of upgrading skills and competencies and the existing training practices also have deviations from theoretical and international practices of knowledge transfer and skill refinement (WEF-ACR, 2015).

3.3.4.5. Reward System

Relevant strategic orientations and approaches, such as market and innovation orientations, can be implemented successfully by linking rewards with those strategic directions. A study conducted in Malaysia, for example, indicated that implementing the 5S (Sort, Set in order, Shine, Standardize, and Sustain) workplace organization method as part of the lean manufacturing process requires satisfactory employee reward and

recognition, efficient communication system, and good management support (Juhari, Abidin & Omar, 2011). Similarly, Muogobo (2013) argue that manufacturing firms need to have employee reward policy that can be used to interpret benefits (such as pay, promotion, security, good working conditions, etc) from the view point of employee satisfaction and goal attainment.

Hence, it is necessary to tailor the incentive plans, benefits, and motivational programs to the overall strategic direction of companies. Properly designed reward system lead to better performance and keeps workers focused on their jobs (Condly, Clark & Stolvitch, 2003).

However, manufacturers in Ethiopia did not have properly designed reward system.

Rewards available to employees currently are not attractive to employees and not tailored to employees' accomplishments such as serving customers better, tracking changes in the competitive environment, and adapting to changing marketplace requirements.

Manufacturers are providing monetary rewards in the form salary (regular payment), commission, and bonus.

Overall, in terms of variety, the type of reward is only monetary reward; and in terms of purpose, there is no attempt to link the reward with attainment of organizational objectives and goals. Lack of systematically designed reward system, on the other hand, affects productivity of manufacturers (Desta et al, 2014). Productivity of privately owned manufacturing companies in Ethiopia is lower because such firms are not willing to hire skilled managers from the labor market with relatively high amount of wage; rather they usually prefer to have managers from family members, regardless of educational

background and experience, with minimum amount of wage (Atkin, Khandelwal & Vogel, 2011).

3.4. Summary

Creating enabling environment for manufacturing firms to enhance their competitiveness in the global environment should be the prim agenda of stakeholders. However, based on the facts discussed in the chapter, one can conclude that Sub-Sahara African countries do not have developed and competitive business environment because of the interplay of many macro and firm-level factors. Although the region exhibits a growing trend of the manufacturing sector in the past two decades, the performance is still inadequate.

Subsequent reports of studies on the African business environment by the World Bank and other recognized institutions show that countries in the region cannot reduce barriers that affect business development at a significant level.

Similarly, the environmental barriers are still serious in Ethiopia. At country level, the competitiveness rank of Ethiopia is even lower than countries in sub-Sahara Africa such as Kenya and Rwanda (WEF-GCI, 2015). The macro, industry, and firm-level factors that challenge development of the business environment of Ethiopia at large and the manufacturing sector in particular are summarized as follows (WEF-GCI, 2015; WEF-ACR, 2015; Mesquita, Lazzarini & Cronin, 2007; Dinh, 2013):

- Institutions (both public and private) are not sufficiently developed. In the public institutions, the rate of corruption and government inefficiency is higher; private institutions lack ethical business behavior and accountability.

- The adequacy and quality of infrastructural facilities (such as road, port, electricity, telecom services, internet, etc) is poor.
- Inadequate macroeconomic performance in terms of reducing inflation and government budget deficit.
- Lack of adequately trained professionals (i.e., managers and employees) in the labor market.
- Lack of adequate and quality supply sources in the domestic market
- Narrow presence of firms in the value chain
- Uneven distribution of industry clusters in the country
- Too much dependence of firms on low-cost labor as source of competitive advantage rather than product and process differentiation
- Limited focus of firms in identifying fulfilling customer needs
- Lack of scientific and mission-driven employee training and development program
- Unplanned and less productive employee rewards and incentives
- Poor innovation capacity of firms because of poor manpower profile, absence of quality scientific research institutions, limited spending of firms on R&D, absence of university-industry linkage in R&D; inadequate number of competent engineers and scientists.

Chapter 4

Research Methodology

4.1. Introduction

In chapter 2, theoretical perspectives and empirical evidences are assessed to position the study to a certain theoretical argument and explain the empirical evidences that support the argument. Following the formulation of the main argument, chapter 3 discussed the contexts (Sub-Sahara Africa and Ethiopian business environments) in which the argument is tested empirically. This chapter describes a) the research paradigm that shapes the choice of specific methods and techniques; b) methods and techniques relevant to draw samples, develop data collection instrument, collect data, analyze data and report findings.

Based on this, the topics discussed in the chapter, according their order, are research paradigm, research design, sampling procedure, data collection methods and procedures, and data analysis procedures.

4.2. Research Paradigm

Paradigm is defined as ‘a broad framework of perception, understanding, belief within which theories and practices operate.’ It is a basis for comprehension, for interpreting social reality and it also pre-structures perceptions, conceptualization, and understanding (Denzin & Lincoln, 2001). Although the term ‘paradigm’ is used loosely in the academic world, overall, it indicates the basic or fundamental aspects in the philosophical, social, and technical levels (Hussey & Hussey, 1997).

Different paradigms have different positions about reality and knowledge of reality. All research projects, implicitly or explicitly, indicate the underlying assumptions about how reality is viewed (known as ontological assumption) and the nature of knowledge of the reality (known as epistemological assumptions). Morgan and Smircich (1980: 491) described the link as ‘the choice and adequacy of a method embodies a variety of assumptions regarding the nature of knowledge and the methods through which that knowledge can be obtained, as well as a set of root assumptions about the nature of the phenomena to be investigated.’ Some authors such as Knight and Turnbull (2008) also argue that it is necessary for a researcher to be clear from the outset regarding the ontological and epistemological assumptions because such assumptions shape the choices of designs and methods.

According to Hussey and Hussey (1997:47), there are two dominant paradigms that have been used by researchers to explain their view of the business world and the nature of knowledge of business organizations. These are positivism and phenomenology. The following section briefly describes the ontological, epistemological, and methodological assumptions of the two paradigms.

4.2.1. Positivist Paradigm

Positivism refers to the search of truth through the application of general principles and laws. It originates from natural sciences and has been applied in social science research studies with the aim of generating valid and reliable knowledge (Brewerton & Millward, 2001)

Positivism is characterized by assumption of a single objective world view, value free and unbiased investigation, the use of methods which are impersonal, formal, and rule-based, formally structured deductive reasoning, the use of prior theoretical base such as competitive advantage theories, seeks to establish associations and causes and effects among variables such as market orientation, innovation capability, and competitiveness, and employs empirical validation and testing of theories through statistical analyses (Bisman, 2010; Lee, 1999).

Ontologically, positivists assume that variables of interest about organizations or the manufacturing world can be researched using standard rules or laws instead of the view that each organization is unique. Corresponding to this view of the manufacturing businesses, positivists' epistemological assumption states that valid knowledge about organizations can be obtained if the researcher holds independent and objective stance. In other words, valid knowledge about organizational variables such as market orientation, innovation, and competitiveness can be obtained if the researcher has possibilities of measuring them (Hussey & Hussey, 1997).

In consistent with the beliefs about reality and nature of knowledge, positivists proposed methodological approaches that guide the research process (Hussey & Hussey, 1997).

Firstly, the process is deductive, where it begins with theories for conceptual clarification of constructs such as market orientation, innovation, and competitiveness; for the formulation of hypothesis; and evaluation of outcomes. Secondly, it uses large sample. Thirdly, associated methods of positivists include cross-sectional studies, experimental studies, longitudinal studies, and surveys. Fourthly, the use of quantitative design guided

by universal principles and generalizability criteria. Fifthly, a theory derived from the study is judged in terms of its power to explain and/or predict phenomena.

However, purely positivistic approach has been criticized in many ways. Johnson and Onwuegbuzie (2004) summarized the criticisms as “time- and context-free generalizations are neither desirable nor possible, research is value-bound, and known cannot be separated from the knower.”

4.2.2. Phenomenological/Interpretivist Paradigm

It is a paradigm that is concerned with understanding human behavior from the participant’s own frame of reference (Hussey & Hussey, 1997). It opposes the positivist view on the ground that it is impossible to separate the researcher and what is being researched. Stating it differently, phenomenology views a phenomenon under investigation in a broader context rather than simplistic view, for example, of the impact of leadership on innovation success regardless of the leader’s context (Porta & Keating, 2008).

In this approach it is assumed that each organization is unique and investigation of organizational variables is context-bound; valid knowledge of organizations involve understanding each organization within its specific context; and methods used in phenomenological paradigm include action research, case studies, ethnography, hermeneutics, and participative enquiry (Hussey & Hussey, 1997).

However, phenomenology is criticized as being subjective and unscientific. The paradigm does not provide opportunity to predict organizational performance based on observed values of constructs and variables (Porta & Keating, 2008).

4.2.3. Choice of Research Paradigm

While choosing philosophical positions, the main point of reference is the research question (s) that a research project seeks to answer. Since the main issue of the study is to explore how strategic orientations of manufacturers in Ethiopia affect competitiveness, the positivist approach is applied. This is because a) the study follows deductive procedure where the problem is formulated based on literature and tested by collecting empirical evidences using structured questionnaire; b) data are collected from large sample; and c) explanatory power is checked statistically.

4.3. Research Design

According to Creswell (2009) research designs are plans and the procedures for research that span the decisions from broad assumptions to detailed methods of data collection and analysis.

Details about the type of data, sampling procedure, data collection instruments, nature of data analysis, and nature of research output are constructed based on our assumption about the nature of reality (ontological assumption) and the approach taken to know the reality (epistemological assumption) (Saunders, Lewis, & Thornhill, 2007). Hence, the argument questions of methods are of secondary importance to questions of which

paradigm is applicable to a particular research has got due recognition among scientific community.

Positivists assume an objective world that can be known objectively in value free manner and follow highly structured methodology that facilitates replication. Positivist research follow procedures such as develop hypothesis based on existing theories, collect data from a large sample using objective techniques (such as questionnaire and structured interview), and quantify observations that lend themselves to statistical analysis (Saunders et al, 2007).

Interpretivists, on the other hand, assume multiple realities based on ones construction of reality or each phenomenon is considered unique and it can be known subjectively.

Interpretivist studies, therefore, collect qualitative data from small and purposeful sample using techniques such as unstructured interview, focus group discussion, and participant observations (Saunders et al., 2007).

Similar to the choice of philosophical paradigm, the choice of proper research design (qualitative, quantitative, and mixed) remains debatable. The following section briefly describes the three types of research design.

4.3.1. Qualitative Research Design

Grounded in phenomenological ontology and epistemology, qualitative research is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem (Creswell, 2009). It is a research design used to investigate

diverse characteristics, or qualities of small number of cases that cannot easily be reduced to numerical values (Neuman, 2007; Leedy & Ormrod, 2010).

Qualitative research design involves strategies such as narrative research, phenomenology, ethnographies, grounded theory, case study, and content analysis (Creswell, 2009; Leedy & Ormrod, 2010). Data gathering tools that correspond to these strategies include techniques such as in-depth interview, critical incident technique, focus group discussion, and observation (Hussey & Hussey, 1997).

Qualitative design has been widely used in organizational studies. It is mainly used in organizational research to contextualize variables and measures, to deeply and vividly describe a phenomenon, and to evaluate perceptions and judgments of participants (Lee, 1999).

Similarly, Leedy and Ormrod, (2010) stated that qualitative design is used when the study demands revealing the nature of culture, system, and relationships; when new insights about the problem are needed (e.g., the unique aspects of Ethiopian business environment); when testing the validity of claims within the real world context is needed, and when judgment of policies, practices, and innovation performance is required.

4.3.2. Quantitative Research Design

Quantitative research involves looking at amounts, or quantities of one or more variables of interest (Leedy & Ormrod, 2010:94). It measures variables and relationships between variables. Quantitative research is a process that consists of activities such as understanding theories that can be used to explain some facet of reality (e.g., why market

orientation influences competitiveness), hypotheses formulation based on theory and operationalization of concepts in the hypotheses (turning concepts in to measures), systematic collection of data to test the hypotheses, data analysis, and reporting findings (Newman & Benz, 1998; Bryman, 2012).

Rooted in positivist philosophy, quantitative research assumes a common objective reality across individuals and the reality can be known objectively (Newman & Benz, 1998).

Objectivity can be achieved through control of variables, randomization, valid and reliable measures, and generalizability from the sample to the population.

Quantitative research involves a deductive process that moves from theory (or hypothesis) to confirmation or disconfirmation of it. For example, if one, based on existing literature, hypothesized that ‘market orientation influences competitiveness,’ quantitative design is appropriate to confirm or disconfirm it.

Quantitative study is characterized by fixed methodology, base itself on theory and theoretical insights, linear steps or phases, involve survey questions that are deduced from theory through the conceptual model and variables, requires data that represent the reality, provide room for replication, and has an outcome that focuses on testing a theory or theoretical insights (Jonker & Pennink, 2010).

Quantitative design is criticized for the assumption that ‘theory’ represents the reality of the problem as it occurs within a certain context; examining a ‘reality’ detached from its context; strict adherence to a methodological approach or lack of flexibility; focus on methodologically and technically sound conceptual models with little or no room about

the actual phenomenon; excessive attention to the technical details of the research; and excessive respect to figures (Jonker & Pennink, 2010).

Despite the criticisms, quantitative research has been used widely in organizational studies. It has been used in situations where the researcher begins with theory and hypothesis; data are gathered from a relatively large sample; measurement is critical; and conclusions are drawn based on the rules of logic.

Quantitative design is widely applied in market orientation (González-Benito and González-Benito, 2005; Liao et al. 2011), innovation (Rosenbusch, Brinckmann, and Bausch, 2010), and competitiveness (Sirikrai & Tang, 2006) studies.

Market orientation studies targeted to explore its antecedents and consequences are largely quantitative. Cadogan, Salminen, Puumalainen and Sundqvist (2001) quantitatively explained internal organizational factors such as structures, systems and processes as antecedents of export market orientation; Pulendran, speed and Widing II (2000) quantitatively tested determinates identified by Jaworski and Kohli (1993) in Australian context; Schlosser and McNaughton (2007) quantitatively explain how employees' attitudes and actions determine market orientation; and Brettel, Englelen, Heinemann, and Vadhanasindhu (2008) examined the influence of national culture on market orientation using MARKOR scale and Structural Equation Modeling analysis tool.

Of market orientation issues studied, the performance impact of the construct has got prominent position (Liao et al. 2011). Quantitative research design is dominantly applied in explaining the performance of market orientation. To mention some of the studies, Narver and Slater (1990) develop scale and measure how market orientation influences

profitability; Jaworski and Kohli (1993) studied how market orientation contributes to organizational commitment and esprit de corps as well as subjective or objective performance of business organizations; Shoham et al (2005) conducted substantive meta-analysis to quantitatively aggregate the direct, indirect and total effect of market orientation on performance; Ho and Huang (2007) statistically examined how degree of market orientation of insurance companies determines performance; Shoham and Rose (2001) examined the impact of market orientation on export performance such as export sales and export profits given environmental factors such as technological turbulence; Kumer, Subramanian, and Yauger (1998) studied the impact of market orientations on ROA, ROI, and success in controlling operational expenses in the health care industry; Sin et al (2005) examined financial and marketing performance impact of market orientation on hotels; Subramanian and Gopalakrishna (2001) measured the impact of market orientation on overall revenue growth, return on capital, success of new products and services, ability to retain customers, and success in controlling operating expenses in manufacturing and service firms. Asikhia (2009) statistically tested the performance impact of market orientation among service and manufacturing firms in Nigeria.

4.3.3. Mixed Method Research

Beyond the qualitative-quantitative debate, a fundamental question has been raised and debated among scholars (Newman and Benz, 1998) are qualitative and quantitative designs mutually exclusive? Or are they interactive within methodological and philosophical continuum? Newman and Benz (1998) hold the position that the methodological approaches are not dichotomous and mutually exclusive rather they are

interactive in a particular scientific investigation. The authors further argue for integrating the two designs that because the scientific process and its rules allow us to acquire knowledge, we can, assume no singular epistemology.

Mixed method approach is a mechanism to explain real world practices (e.g., training and development practices, employee rewarding practices, type of organizational culture, market orientation and innovation performance) through a mixture of qualitative and quantitative data (Creswell, 2009). Harrison & Reilly (2011) also indicated that mixed method research is common in marketing research.

In this study, the nature of the research questions dictates the application of quantitative design alone. As a result, quantitative tools and techniques are used to measure constructs.

4.4. Population and Unit of Analysis

Strategic orientations are applicable to all businesses regardless of size, scope or industry. The framework developed in this study (see chapter 2) is empirically tested by collecting data from Medium and Large manufacturing businesses in Ethiopia. The study population, therefore, includes all kinds of manufacturing activities to increase generalizability across subsectors and to reduce industry bias (Dursun-Kilic, 2005).

Although the impact of strategic orientations (market orientation and innovation) on the performance of small businesses is well documented in the literature (e.g., Pelham, 2000), small businesses are not part of the study for the following reasons. First, the aim of this study is to explain how strategic orientations provide differential advantage for those firms exposed to both local and foreign competitions. Adequate evidences are

documented in the literature that shows the stronger impact of strategic orientations on the performance of medium and large organizations (Blankson & Cheng, 2005). Second, small scale manufacturers are very large in number and diverse in type, the inclusion of which would complicate the sampling, data gathering, and analysis activities.

Based on the definition given by Ethiopian CSA (2012), manufacturers with 10 or more employees and those conducting machine driven operation are classified as medium and high.

In this category, there are 2,172 public and privately owned manufacturers (CSA, 2012). These organizations are grouped into 15 industry/subsectors. The subsectors and the relative percentage share of each sector are mentioned in Table 4.1 as follows.

Table 4.1 Distribution of Large and Medium Scale Manufacturing by Subsectors

Se.No.	Industry	Percentage
1	Food Products and Beverages	31.61
2	Tobacco Products	0.05
3	Textiles	1.71
4	Wearing Apparel, Except Fur Apparel	1.84
5	Manufacture of Leather and Leather products	6.50
6	Products of Wood and Cork, except Furniture	3.96
7	Paper, Paper Products and Printing	5.62
8	Chemical Products	3.55
9	Rubber and Plastic Products	4.88
10	Non-Metallic Mineral Products	18.85
11	Basic Iron And Steel	1.80
12	Fabricated Metal products	6.50
13	Machinery and Equipment	0.28
14	Motor Vehicles, Trailers & Semi-Trailers	0.37
15	Furniture Manufacturing	12.49
	Total	100.00

(Source: CSA, 2012)

Regionally, of the 2,172 medium and large manufacturers, Addis Ababa has the largest share of all type (875 or 40.29%), followed by Oromyia (451 or 20.76%), S.N.N.P (292 or 13.44%), Amhara (232 or 10.68%), Tigray (199 or 9.16%), and Dire Dawa (61 or 2.81%).

The remaining small number of manufacturers are scattered over other regions.

However, the definition of medium sized business by CSA has a clarity problem. The minimum requirements used to define medium sized businesses (10 people and machine

driven operation) contradicts with the definition of small manufacturing businesses (as those businesses with fewer than 30 employees and have up to 1.5 million Birr capital) by Small & Micro Enterprise (SME) Development strategy of the Ethiopian government (2011). In addition, most businesses fulfilling the minimum requirements of 10 people and machine-driven operation do not have formal business structure and are scattered widely to serve local needs. Examples of businesses fulfilling the minimum CSA criteria include small pastries and bakeries.

Because of lack of uniformity in the definition of size, a definition that fits the context has been used by researchers. In this study also, medium and large businesses are redefined as those businesses with 50 or more employees and conduct machine driven operation. That is, taking the definition of size in Small & Micro Enterprise (SME) Development strategy of the Ethiopian government, the number of employees considered in this study is above the maximum number of employees in small enterprises.

The target population of the study, therefore, is manufacturers in Addis Ababa with 50 or more employees. Based on the list of companies developed for each industry group by Addis Ababa Chamber of Commerce and Sectorial Association, the total number of firms that fulfill the criteria (i.e., 50 or more employees and machine driven operation) is 656.

The Addis Ababa cluster is chosen because 40.3% (874) of manufacturers in the country are operating in Addis Ababa; and unlike other clusters or regions, all types of manufacturing activities are available in Addis Ababa. In addition, from methodology point of view, clustering is a good approach when there is lack of good sampling frame and the cost to reach dispersed population is very high (Neuman, 2007).

The units of analysis in this study include single manufacturing firms and Strategic Business Units (SBUs) of large multi business firms. SBU is characterized by independent businesses with a separate plan, has its own set of competitors, and has a management who is responsible for developing and executing plans, commanding resources, and achieving profit performance (Kotler & Armstrong, 2012). Due to the differences among businesses within a corporation in terms of their market orientation and innovation practices, it seems appropriate to contact SBU informants (Ruekert, 1992). The foundational studies on market orientation by, for example, Narver and Slater (1990), Slater and Narver (1994, 2000), Jaworski and Kohli (1993), Deshpande and Farely (1993), and Hult et al (2003), also used SBUs as units of analysis. At micro level, respondents from each SBU or single firm are top level managers/executive and marketing managers. The reason for targeting managers at the top level is that the subject under investigation spans the entire organization rather than a specific function and managers at this level have good knowledge of the entire organization than functional managers (Weerawardena, 2002). Similarly, marketing managers are appropriate respondents to explain marketing and related organizational matters such as market orientation philosophy, marketing capabilities, and how market orientation philosophy is integrated into innovation activities (Deng and Dart, 1994).

4.5. Sample and Sampling Methods

The number of all manufacturers is too large to undertake census. Even it is tedious, expensive, and unnecessary to conduct census as long as generalizeable data are available

from a manageable size of respondents (Neuman, 2007; Blaikie, 2003). Therefore, sample survey is appropriate for the study.

In sample survey the process involves getting a sample or smaller number of cases from a large population and the researcher study the sample cases and produce accurate generalizations (Neuman 2007). Therefore, the most important requirement in the sampling process is ensuring that the cases taken are good representations of the population. In other words, optimal sample size, which is neither inadequate nor excessive, ensures efficiency, representativeness, reliability and flexibility (Kothari, 2004).

Therefore, the two most critical reference points of sampling effectiveness in the literature are minimum required returned sample size and initial sample size (Brayman & Bell, 2007).

There are suggested ways of determining the optimal initial sample size in the literature. Saunders et al, (2007) recommended sample size of 322 and 357 for a population size of 2000 and 5000 respectively at 95% level of certainty, 5% margin of error, and assuming that data are collected from all cases. Based on the common practice of determining sample size, Neuman (2007) recommended 30% and 10% rate for population size of under 1000 (small population) and 10,000 (medium sized population) respectively.

The minimum required sample size can be determined based on the type of data analysis (Hair, Black, Babin & Anderson, 2010). Similarly, Tharenou, Donohue, and Cooper (2007) stated that to conduct Structural Equation Modeling, the number of cases must be

between 150 and 200, and a sample size of 200 could be considered as large for the purpose.

The sample size in this study, therefore, is 232 manufacturers (i.e., 35.4% of 656 or the target population) and 464 key informants (i.e., 2 respondents from each company). The size is above the requirements of SEM and it also fulfills the suggestion of Neuman (2007) and Saunders et al, (2007). In addition, similar studies also support the procedure. Brettin (2011) used 353 completed surveys to analyze how entrepreneurial orientation contributes for firm's competitive advantage using multiple regression analysis. Schlosser (2004) analyze 138 useable responses using structural equation modeling to explain the market orientated contributions of individuals. Zheng, Yang and McLean (2010) examined the correlation between organizational innovation capability and two organizational factors (innovation drivers and organizational culture) using 79 valid or useable survey results. Menguc and Auh (2006) conducted factor analysis to determine the effect of market orientation on firm performance and the influence of innovativeness in this relationship using a usable sample size of 242. Table 4.2 shows comparison of suggested sample size with prior studies.

Table 4.2 Comparison of Initial Sample Size and Responses in Some Prior Studies

Author	Study	Initial Sample Size	Response	Percent
Qu & Zhang, 2014	Market orientation and business performance	2000	252	12.6
Deutcher, Zapku, Schwens, Baum & Kabst, 2015	Strategic Orientations and performance	1703	148	11.5
Theodosiou, Kehagias & Katsikea, 2012	Strategic orientations, marketing capabilities and firm performance	630	316	50.16
Jime´nez-Jimenez, Valle, & Hernandez-Espallardo, 2008	Fostering innovation-the role of market orientation and organizational learning	1600	744	46.5
Jaworski & Kohli, 1993	Market Orientation: Antecedents and consequences	229	222	96.9
Narver & Slater, 1990	The effect of market orientation on business profitability	440	371	84.3

The table shows that rate of response ranges between 11.5% and 96.9%. The initial sample size determined for this study, therefore, is within the acceptable range.

The samples are designed to represent all of the industries or sub-sectors in order to increase generalizeability of the findings. For the purpose, cluster and stratified random

sampling techniques are used in the study. In cluster sampling, a researcher draws several samples in stages (Neuman, 2007). In this study, for example, a three-stage sampling process is used. In the first stage, 11 regions or clusters are identified based on CSA classification and of these regions Addis Ababa is purposively selected. In the second stage, using stratified random sampling technique, within Addis Ababa cluster, manufacturers are grouped into 15 industry groups or sub-sectors and sample companies are taken from each industry group proportionate to their size. Finally, from each sample organization, two key informants (executives and marketing managers) are contacted. Table 4.3 shows distribution of target firms and the sampling procedure.

Table 4.3 Distribution of Samples

Industry Group	No. of Firms (N)	Percentage (P)=N/656	Sample (P*232)
Food Products and Beverages	129	0.197	45
Tobacco Products	1	0.002	1
Textiles	14	0.021	5
Wearing Apparel, Except Fur Apparel	31	0.047	11
Tannery, Leather Goods and Articles	57	0.087	20
Products of Wood and Cork, except Furniture	30	0.046	11
Paper, Paper Products and Printing	74	0.113	26
Chemical Products	36	0.055	13
Rubber and Plastic Products	68	0.104	24
Non-Metallic Mineral Products	91	0.139	32
Basic Iron And Steel	16	0.024	6
Fabricated Metal products	48	0.073	17
Machinery and Equipment	4	0.006	1
Motor Vehicles, Trailers & Semi-Trailers	3	0.005	1
Furniture Manufacturing	54	0.082	19
Total	656	1	232

The sample size determined earlier (i.e., 232) is distributed proportionately to each industry group. Consequently, all industry groups are represented in the study.

Specific companies, companies to which questionnaire are distributed, are selected using systematic random sampling by taking a list of manufacturers developed by the Ministry of Industry and Ethiopian Chamber of Commerce for each industry/sector.

4.6. Data Collection Methods and Procedures

4.6.1. Measures of Constructs and Variables

Measurement links constructs (such as leadership, culture, market orientation, innovation, marketing capabilities, and competitiveness) to their empirical representation known as data (Neuman, 2007). Measurement instruments for these constructs and variables are adapted from previous studies, based on the suggestion that “good ideas for measures can be found in other studies or modified from other measures (Neuman, 2007).”

The following paragraphs briefly describe the dimensions of these constructs to be measured and the measurement instruments adapted.

- a. Top management emphasis:** is measured in terms of the emphasis leaders put on market orientation. Four items are used to measure the leadership variable. Market oriented leaders are those who are willing and able to communicate to their employees about the importance of understanding market trends, being sensitive to competitors move, gearing up to meet customer future needs, and servicing customers (Jaworski & Kohli, 1993).

- b. Culture:** is measured using OCAI questionnaire of Cameron and Quinn, (2006). The instrument is used to identify the dominant type of culture (market, hierarchical, adhocracy, and clan) in an organization and explain how that culture is related to performance. Accordingly, it consists of six dimensions such as kind of organization, leadership, management of employees, organization glue, strategic emphasis, and criteria for success. The main reason for measuring these dimensions is that, in combination, they reflect fundamental cultural values and implicit assumptions about the way the organization functions (Cameron and Quinn, 2006). In this study, culture is measured using the above 6 dimensions. Four alternatives are used for each dimension and respondents were asked to divide 10 points among the four alternatives. The instrument has been adapted in culture focused market orientation studies such as Deshpandé, Farley and Webster (1993); Deshpandé and Farley (1999); Deshpandé and Farley (2004) Leisen, Lilly & Winson (2002); Valencia, Valle & Jime´nez Jime´nez, 2010.
- c. Employee training:** refers to the process of upgrading employees and managers' skills and competencies, attitudes, behaviors and motivation (Tharenous et al., 2007). Such knowledge and skills enable employees to create and deliver superior services than competitors. Four items are included to measure employee training. The items are designed to measure whether organizations provide training on customer needs, customer services, customer awareness, and the generation and use of marketplace information.
- d. Reward System:** of an organization should motivate employees at their highest level in order to adapt and develop relevant orientations such as market orientation

and innovation. A reward system can be successful if it is linked to the strategy of a company. Hence, the construct is measured in this study using five items. The items are designed to measure whether organizations are measuring performance from the view point of sensitivity to competitive action, customer satisfaction, ability to generate and use marketplace information, ability to develop good relationships with customers, and use of customer opinion to evaluate employees.

- e. **Market Orientation:** is a latent variable the development of which is influenced by organizational factors mentioned earlier. Market orientation is measured in the literature using different scales such as MARKOR (Jaworski & Kohli, 1993), MAKTOR (Narver & Slater, 1990), and MORTN (Deshpandé & Farley, 1998).
- f. **Marketing Capabilities:** core marketing practices have impact on market orientation and innovation of organizations. Marketing capabilities is measured by adapting instrument developed by Vorhies and Morgan (2005). Relative performance of sample respondents on pricing, product management, distribution management, marketing communications, market planning, and marketing implementations are assessed. Sixteen items are used to measure marketing mix, planning, implementation and monitoring activities of organizations.
- g. **Innovation:** it is defined here as the achievement of organizations to improve products, processes, administrative operations, and marketing operations. Hence, eight items are used to measure these factors.
- h. **Industry characteristic:** as a factor that moderate the consequence of market orientation and innovativeness on innovation capability is defined here in terms of

whether the industry is high-tech or low-tech. Six-item measures of these characteristics developed by Zahara (2008) is used.

- i. **Competitiveness:** Strategically, strategic orientations are widely acknowledged as main driver of innovation success and competitiveness (Irina, 2000).

Competitiveness of firms has been measured in a variety of ways. However, competitiveness as a consequence of innovation is measured in terms of performance indicators such as market share, profit level, return on investment, and other quantitative indicators. For example, Leskovar-Spacapan and Bastic, (2007) measured dimensions such as entering new market, increasing market share, customer satisfaction, ROI, and higher ratio profit/employee as innovation advantages or competitive advantages of innovation. Similarly, Sirikrai and Tang (2006) also used market share, productivity, and cost of capital as measures of competitiveness. Competitiveness is measured in this study by assessing how market and innovation orientations affect market share, ROI, and productivity.

Except constructs such as culture and innovation capacity, 6-point measurement scale is applied so that the instrument can be more reliable (Neuman, 2007). Chomeya (2010) also found out that 6-point Likert Scale provides high discrimination and reliability values.

4.6.2. Preliminary Field Research

This phase involves evaluation of the suggested framework in terms of the relevance of its variables and the proposed relationships among them in the practical manufacturing world. According to Neuman (2007) such preliminary check enhances the validity of the

study and it provides reasonable assurance regarding the relationship among constructs used to describe, theorize, or analyze manufacturing practices and what actually occurs in the manufacturing environment. Following this logic of reasoning, Dursun-Kilic (2005) conducted preliminary field research to explore the practical applicability of the proposed constructs and relationships, to evaluate the present suitability of existing measurement scales, and to evaluate the preliminary form of survey questionnaire.

Therefore, in this study, preliminary investigation is conducted to gain insight about the extent to which manufacturing companies build market and innovation orientations; internal determinants that facilitate or limit the adoption and development of the orientations; and performance impact of the orientations.

Preliminary investigation is carried out through observation, informal discussion with people, and review of different company reports. To properly understand the business context of least developed countries in general and Ethiopian business context in particular, reports of broadly recognized international institutions such as World Economic Forum (WEF), the World Bank (WB), and the African Development Bank (ADB) are reviewed. In addition, reports (produced by government offices, associations of manufacturers based on industry group, and chamber of commerce) are reviewed to gain insights into the nature of manufacturers operation in Ethiopia.

4.6.3. Questionnaire Design Procedure

The survey questionnaire of the study is designed using the following procedure:

Firstly, using the measures of constructs available in the literature mentioned earlier, first draft of the questionnaire that consists of demographic variables (industry type, business type, and relevant profile of respondents), organizational level variables (Market orientation, innovation, marketing capabilities, and competitiveness), and internal determinant factors (top management emphasis, reward system, and employee training) is developed.

Secondly, the first draft is given to 5 relevant academics to make correction, addition, deletion, rearrangement, and all the necessary improvements (Jaworski & Kohli, 1993).

Thirdly, based on the academics comments, the second draft is prepared and distributed to 28 respondents, two respondents (i.e., top manager and marketing manager of a company) from 14 organizations identified from each industry except the tobacco sector. The purpose is to pinpoint ambiguities and difficulties while filling the questionnaire (Narver & Slater, 2004). Pretesting is necessary in order to refine the content and format of questions and to refine the scale items of each construct in the suggested model (Dursun-Kilic, 2005). It also helps assess the validity and internal reliability of each measure. Internal consistency of the instrument or the extent to which each indicator of a concept converges on some common meaning is assessed using coefficient alpha (α). Appendix 1 presents the final survey questionnaire and coefficient alpha (α) test results are presented in Appendix 5.

4.6.4. Reliability and Validity Testing

A. Reliability

Reliability is a character of scientific research where the researcher ensures that characteristics of the measurement instrument and measurement process guarantee the reproduction of consistent results (Neuman, 2007). Statistically, reliability is defined as the extent to which a measure is free of random measurement error (Tharenou, Donohue, & Cooper, 2007). For a measure and measurement process to be reliable there should be clarity in conceptualization of constructs, precise level of measurement, use of multiple indicators, and pilot testing (Neuman, 2007). Determining reliability of measures is necessary because it is less likely for a researcher to examine association between variables with very low reliability (Tharenou, et al, 2007).

Reliability or systematic variation in a scale can be determined by associating scores obtained from different administrations of the scale. Malhotra and Birks (2006) discussed three approaches for assessing reliability including the test–re-test, alternative forms, and internal consistency methods. Internal consistency, the consistency among items forming the scale, is the most frequently used reliability test in studies targeted to investigate relationships. In other words, internal consistency is an indicator of whether items are measuring the same thing. It is measured by coefficient alpha, or Cronbach’s alpha. Internal consistency between a set of indicators of a latent construct is one requirement in structural equation modeling (Hair, Black, Babin & Anderson, 2010).

The test is applied by the major market orientation measures MARKOR (Jaworski & Kohli, 1993) and MAKTOR (Narver & Slater, 1990). Comparison of the two

measurement scales reliability is made by Gonza'lez-Benito and Gonza'lez-Benito (2005) using coefficient alpha. Other market orientation scales used by Deshpandé, et al (1993) and Deng and Dart (1994) are also used the same reliability test.

Similarly, measures of constructs such as organizational culture (e.g., Cameron and Quinn, 2006), top management emphasis (e.g., Jaworski & Kohli, 1993; Harris & Ogbonna, 2001), innovation (e.g., Dobni, 2008), marketing capabilities (e.g., Vorhies & Morgan, 2005), innovation capacity (Hurle & Hult, 1998), and competitiveness (e.g., Leskovar-Spacapan & Bastic, 2007) applied coefficient alpha as a test of reliability.

In this study, therefore, the reliability of measures and measurement process is enhanced through clearer conceptualization of constructs based on literature and preliminary exploration of practices, the use of precise scales (6-point Likert scale), increasing the number of indicators of main constructs (such as market orientation, marketing capabilities, innovation, and competitiveness), and pilot testing. Similar to other market orientation studies, pilot testing is made to check the reliability of the adapted measures.

B. Validity

Validity refers to whether a variable measures what it is supposed to measure. In other words, it indicates how well a social reality being measured matches with the constructs used to measure it (Neuman, 2007). There are three types of measurement validity to be checked: face validity, construct validity, and criterion validity (Neuman, 2007).

Face validity is defined as the judgment of the scientific community whether the indicator really measures the construct. It is also known as content validity and it shows how well

the content of a scale represents the measurement task at hand (Malhotra & Birks, 2006). Content validity of measures can be achieved through a multi-stage design of instrument formulation such as exhaustive review of literature, expert opinion, and pretesting (Dobni, 2008).

Construct validity is capturing theoretical essence or theoretical questions such as why the scale works and what deductions can be made (Malhotra & Birks, 2006). It is about the legitimacy of inferences from operationalization to a theoretical construct. Construct validity is measured in terms of the extent to which the scale positively correlates with other measurements (convergent validity), has low correlation with unrelated constructs (Discriminant validity), and the correlation between the scale and theoretical predictions (Nomological validity) (Malhotra & Birks, 2006).

In this study, to establish the face validity of constructs, the researcher conducted exhaustive review of literature and, in addition, gathering of expert opinion and pilot testing is made. Regarding the validity of the link between indicators and theoretical constructs, convergent validity is checked using AMOS program in the process of evaluating fit.

4.6.5. Conducting the Survey

Survey, according to Neuman (2007), is used to measure many variables and test several hypotheses in a single study. It is used to evaluate behaviors, attitudes, opinions, characteristics, knowledge and expectations. Hence, survey of medium and large manufacturers is made in order to test relationships presented in the conceptual framework. Data is collected from respondents in Addis Ababa by distributing

questionnaires through data collectors (self-administered survey). Self administered survey approach is appropriate for the study because of the cheaper survey costs, respondents' convenience to complete the survey, reduced interviewer bias due to anonymity, and high response rate for educated target population (Neuman, 2007).

The survey instrument consists of a cover letter and a questionnaire designed in booklet format. The cover letter will briefly describe the purpose of the research and confidentiality statement that indicates anonymous use of data.

4.7. Data Analysis Procedure

In this study, the statistical model used for analysis is Structural Equation Modeling (SEM). Structural Equation Modeling (SEM) is a collection of statistical techniques that allow examination of a set of relationships between one or more independent variables, either continuous or discrete, and one or more dependent variables, either continuous or discrete (Lei & Wu, 2007; Schumacker & Lomax, 2004)

The tool is selected because it is able to model mediation, indirect effects and other complex relationships among variables, account for measurement error, provide a measure of model fit and therefore allows comparison of competing models (Lei and Wu, 2007). In addition, Steenkamp & Baumgartner (2000) shows that SEM helps marketing researchers to think critically about the conceptual and empirical quality of their observed measures.

According to Lei and Wu (2007), SEM involves evaluation of two models: the path model and the measurement model. The path component of SEM is used to describe relationships among variables such as organizational characteristics (i.e., top management

emphasis, culture, reward system, and employee training) as source variables that influence market orientation and innovation; and the influence of market orientation and innovation on competitiveness of manufacturing firms. The second component of SEM deals with the measurement of unobserved latent variable. Latent variables are measured in terms of indicators selected based on prior studies and factor analysis is used to see if indicators load as predicted. Therefore, Confirmatory Factor Analysis (CFA) is used to measure latent variables of the proposed model. As a requirement of CFA, the researcher should hypothesize the number of factors or indicators beforehand.

SEM involves five stages (Lei & Wu, 2007) model specification, data collection, model estimation, model evaluation, and possibly, model modification. As stated earlier, a conceptual model is developed by reviewing extant literature. The next stage is collecting data from the sources mentioned earlier. After data are collected, fixed parameters and free parameters are estimated from the data and evaluation of whether the model fit the data or goodness of fit is checked. Many indices are available to measure goodness-of-fit (GOF) including chi-square statistic the Goodness-of-Fit Index (GFI); the Adjusted Goodness-of-Fit Index (AGFI); the Standardized Root Mean Square Residual (RMSR); the Tucker and Lewis Index (TLI); the Comparative Fit Index (CFI); the Normed Fit Index (NFI); and the Root Mean Square Error of Approximation (RMSEA) (Nsenduluka, 2008). In order to reduce limitations of each tool, indices are used in combination (Nsenduluka, 2008).

4.8. Summary

This chapter presented detailed account of methodological issues that are related to research philosophy, research design, population, sampling procedure, data collection procedures, and data analysis approaches.

First, the essences of alternative paradigms (i.e., positivist and interpretivist paradigms) are discussed and the paradigm used in the study (i.e., the positivist paradigm) is identified based on justifications.

Second, the meaning, characteristics and applications of alternative research design types are discussed; and based on this, quantitative design is chosen for this study where the collected data are analyzed and interpreted using quantitative tools and techniques.

Third, the target population of the study is defined; and in this study, the target population is defined as manufacturing companies in Addis Ababa with number of employees greater than 50 and do activities using machine.

Fourth, sampling procedure is presented; the study applied multistage cluster sampling, stratified random sampling, and systematic sampling to determine the sample size.

Fifth, the chapter describes data collection procedure including the stages involved in the process of designing and validating data collection instrument.

Finally, the chapter presents approaches used to analyze data collected using questionnaire.

Chapter 5

Data Presentation and Analysis

5.1. Introduction

This chapter describes the empirical results of the hypothesized relationships. First, the aim of the study, the research questions, and the theoretical model are briefly described to link the literature based conceptual model with the empirical discussions. Second, characteristics of the sample and data collection process are presented. Third, feasibility assessments of the results of the data in terms of the assumptions underlying statistical techniques (missing values, outliers, normality, and linearity) are discussed. Fourth, the results of the descriptive statistics are briefly presented as background information. Fifth, factorial validity of measures of all constructs assessed using confirmatory factor analysis results of the AMOS software program are included in this chapter. Finally, the AMOS results of the structural model analyses are discussed, the proposed relationships are examined, the conclusions are drawn, and the managerial implications are put forward.

5.2. Aim of the Study, Research Question and the Conceptual Model

The aim of the study is to explain how strategic orientations (market orientation and innovation) influence business competitiveness and how the strategic orientations-performance link is affected by company level antecedents and firm characteristics. In line with this, the study is designed to test the hypothesized relationships which are formulated based on prior related studies. The conceptual model (Figure 5.1) presents the hypothesized relationships and the direction of effects.

The research questions this study targets to answer are: How do strategic orientations (market orientation and innovation) influence competitiveness of businesses? Is the strategic orientations-performance link affected by company level antecedents and firm characteristics?

The conceptual model developed based on the related literature reviewed is presented hereunder.

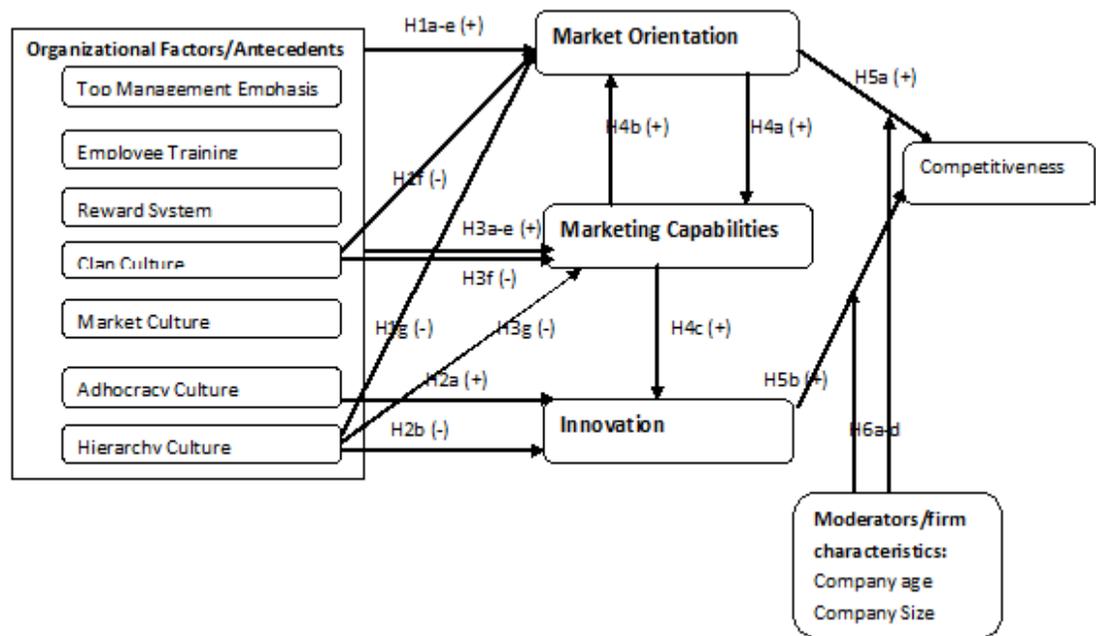


Figure 5.1 Conceptual Model

5.3. Data Collection, Examination and Preparation

5.3.1. Data Collection procedure, Data Entry and data screening

Data are collected using structured questionnaire. The survey questionnaire is taken from the literature reviewed and then refined at different stages based on the procedures described in Chapter 4 (the methodology section). The questionnaire is structured into

three sections: *organizational variables* (market orientation, innovation, marketing capabilities and antecedents), *performance variables* (competitiveness), and *demographic information* (type of industry/subsector, company age, employee experience, position title of respondents and annual revenue). A 6-point Likert Scale is used to examine organizational and performance variables. The final questionnaire is designed in booklet form with a cover letter appended on its first page to convince the respondents to fill in and return the questionnaire (Zikmund, Babin, Carr, & Griffin, 2010).

Data are collected from the medium and the large manufacturing companies found in Ethiopia. As stated in Chapter 3, nearly all manufacturing subsectors are included in the study in order to reduce industry specific biases and to increase the study's generalizability (Dursun-Kilic, 2005). The industries and the number of companies under each industry involved in the study are given below in Section 5.3.

In line with the number of employees and the distribution of companies under each industry / sector, a total of 232 firms found in Addis Ababa are selected as target respondents. Specifically, target organizations are identified using systematic random sampling from a list of manufacturers reported in a document prepared by the Ministry of Industry and Ethiopian Chamber of Commerce for each industry/sector. Of the 232 companies, 21 companies are not contacted due to various reasons such as change in location of operation, change in business type. The key informants are general managers and marketing managers. Hence, a total of 422 questionnaires for 211 companies (two questionnaires for each company) are distributed. Of this, 246 (58.29%) are collected

back. Out of the 246 returned questionnaires, the number of usable questionnaires is 204 (48.34%).

The data collection approach is a self administered survey where the researcher personally delivered the questionnaires to the respondents but the filled in questionnaires are collected back together with other data collectors. Self administered survey is used because firstly, it enhances respondent participation (Saunders et al, 2007); secondly, it provides flexibility for the respondent, offers anonymity and eliminates interviewer bias, and provides high response rate for educated respondents (Neuman, 2007); thirdly, it allows the researcher to convince busy executives and those who lack confidence on survey results (Neuman, 2007). The researcher also made frequent reminder telephone calls to increase the response rates.

Next, the data obtained are collected and entered into the SPSS program, and checked for errors; the nature of the variables is also explored using descriptive statistical techniques. Data screening is an essential stage in scientific studies that apply multivariate analysis.

5.3.2. Analysis of Missing Values

A study is said to exhibit missing data if the data on any variable from any participant is not present (Osborne, 2013). Missing data is the most pervasive problem in data analysis and the problem would be more serious depending on the pattern of missing data, the amount of data missed and the reasons for missing that data (Tabachnick & Fidell, 2007).

Hence, this study addressed the issue of missing data by answering the following questions (Tabachnick & Fidell, 2007; Osborne, 2013): first, what type of missing data is

observed in the data set? Second, how significant is the missing data? Third, is the missing data missed at random, non-random, or completely at random? Fourth, what imputation technique is appropriate?

In light of this, the evaluation of missing data is made by observing whether majority of the questions in each part of the questionnaire are answered. Hence, the questionnaires whose part or significant number of questions in each part is not filled in properly are sorted out and discarded. Second, the questionnaires identified as usable in the first stage are almost complete except some few missed responses (Table 5.1). Some respondents (9 cases out of 204 usable respondents) are also found unwilling to report annual sales of the company.

Table 5.1 Missing data by Case

#Missing	Cases	Percentage
#0 Missing	173	85%
# 1 Missing	23	11%
# 2 Missing	6	3%
#3 Missing	2	1%
Total Cases	204	100%

The table above shows that there are 32 missing metric data values out of 14,484 total data values (the result obtained by multiplying 71 – metric variable by number of cases-204). The missing values are 2% of the total data values which is well below 10%, the standard (Hair et al, 2010) and even below 5%, the standard of Tabachnick and Fidell (2007). Hence, any imputation approach can be applied. Missed responses on the annual

sales of the companies are filled in through referring to the reports made by the Ministry of Trade, CSA, and other recent studies on the issue. The remaining variables are missed in random pattern and then mean substitution method of imputing is applied.

5.3.3. Estimating Non-Response Bias

Non-response is a failure to obtain survey data from sample respondents. Non-response may cause bias and affect the accuracy of inferences that could be drawn from the sample to the population. Hence, the potential effect of non-response bias should be determined as part of the data validation process.

To assess the effect of non-response bias, extrapolation methods are used. In other words, non-response bias is evaluated by comparing the data obtained from the early respondents against those data gathered late during data collection period. The reason is respondents who respond in the later wave are less interested and have responded because of frequent follow-up and requests (Bryman & Liao 2004). As a result, such respondents are expected to be similar to non-respondents.

In this study, comparison of the data that are obtained early and late is made in terms of the issues that are assumed to motivate respondents to answer the survey questions. The core issues are market orientation, innovation, employee training, and competitiveness. In this study, since the data obtained are entered into the SPSS program according to the time order they are collected, it is not difficult to differentiate the earlier respondents from the later ones.

Therefore, to determine the non-response bias, the first 35 respondents (17%) and the last 35 respondents (17%) are selected and a paired sample t-test is run. Table 5.2 presents the results.

Table 5.2 Independent sample t-test for non-response bias

Constructs	t	df	p	Mean			Std. error Differences
				Earlier	Later	Differences	
Market Orientation	1.22	68	0.23	4.13	4.35	0.22	0.18
Innovation	0.56	68	0.58	3.89	3.78	0.11	0.20
Competitiveness	0.07	68	0.95	3.92	3.90	0.02	0.22
Employee Training	0.78	68	0.44	3.79	3.97	0.18	0.23

The t-test results in Table 5.2 reveals that there is no statistically significant difference between the early and the late respondents as the sig. (2-tailed) value is greater than 0.05 for all constructs under consideration.

5.4. Descriptive Statistics

After cleaning the data and checking for errors, in order to describe the characteristics of the sample and to check variables for any violation of assumptions underlying multivariate statistical techniques, descriptive analyses are conducted (Pallant, 2011). Accordingly, the following sections deals with the statistics of demographic variables, organizational characteristics, and performance variables.

5.4.1. Descriptive statistics of Demographic Variables

Demographic characteristics of respondents are background information relevant both to describe the data set and to make inferences out of it which are used to make the research complete (Tabachnick & Fidell, 2007). Therefore, this section presents the demographic characteristics of the respondents which include type of industry/subsector, company age, employee experience, position title of respondents and annual revenue.

I. Industries/Subsectors

Table 5.3 present the type of industries/sectors included in the study.

Table 5.3 Descriptive Statistics Manufacturing Sectors²

Subsector	Frequency	Percent
Food and Beverages	47	23.03
Tobacco Products	1	0.50
Tannery, Leather Goods and Articles	25	12.25
Textile and wearing apparel	22	10.78
Chemicals/Drugs and Pharmaceuticals	21	10.30
Paper and Paper Products	16	7.84
Non-Metallic Mineral Products	15	7.35
Metallurgy	16	7.84
Rubber and Plastic Products	17	8.33
Machinery and Equipment/Motor Vehicle	4	1.98
Wood and Wood Products	20	9.80
Total	204	100.0

As stated in Chapter 4, all industry sectors are included in proportion to the distribution of each industry in the population. The food and beverage sector, for example, has a relatively large number of factories and corresponding to this, the number of respondents

² Number of industry groups are reduced from 15 to 11 by combining related industries

(48) is larger than respondents in other sectors. Similarly, the number of machinery and equipment manufacturers in Ethiopia is small and hence only 4 companies are involved in the study.

II. Composition of Key Informants

Table 5.4 presents the number of top-level managers and marketing managers involved in the study.

Table 5.4 Descriptive Statistics Key Informants Composition

Position	Frequency	Percent
Top Managers	107	52.5
Marketing Managers	97	47.5
Total	204	100.0

The number of participants of respondents from the two positions is almost balanced with 52.5% and 47.5% for top managers and marketing managers respectively. Both marketing managers and general managers are included in the study because the use of multiple informants increases validity (Kohli et al, 1993). In addition, managers in these positions are more familiar with marketplace factors as well as internal resources and capabilities.

III. Experience of respondents and company age

Table 5.5 presents number of service years of key informants and the number of years where the company is in business.

Table 5.5 Descriptive Statistics of Respondents Experience and Company Age

Item	Mean	Median	Mode	Std. Deviation	Range
Number of Service Years of Informants	7.01	6	5	4.03	23
Company Age	26.68	19	25	20.54	95

As reported in Table 5.5, the average number of service years of the respondents in the company is 7.01 and, on average, the companies have been in business for 26.17 years. The ranges between the minimum and maximum service years and company age are 23 and 95 years, respectively. The mode or the most frequently occurred service years and age are 5 and 25, respectively. This means, large number of key informants has 5 years of working experience and large number of organizations has the age of 25 years. The data thus imply that the respondents have reasonably high experience in their respective company duties, and the organizations have adequate experience in dealing with the marketplace factors and in doing innovation activities.

IV. Number of Employees

Table 5.6 reports the number of employees in the target organizations.

Table 5.6 Descriptive Statistics of Number of Employees

Number	Frequency	Percent
51-99	23	11.3
100-499	118	57.8
500-999	40	19.6
1000-4999	22	10.8
5000+	1	.5
Total	204	100.0

Most of the respondents' organizations (88.7%) have more than 100 employees, while a few (11.3%) of the respondents have between 50 and 99 employees. This implies that the targeted organizations are sufficiently large to deliberately develop and practice strategic orientations.

V. Annual Sales

The volume of sales that each of the targeted organizations annually makes is reported below in Table 5.7.

Table 5.7 Descriptive Statistics of Annual Sales

Amount	Frequency	Percent
< 1 Million Birr	8	3.9
1 million-5 million Birr	13	6.4
5 million-10million Birr	17	8.3
10 million-20 million Birr	12	5.9
20 million -50 million Birr	31	15.2
50 million – 100 million Birr	43	21.1
100 million- 500 million Birr	59	28.9
> 500 million Birr	21	10.3
Total	204	100.0

More than 75.5% of the companies' annual revenue is greater than 20 million Birr, which implies that most of the target organizations are large in terms of investment amount; and thus they again are required to strategically orientate themselves for sustaining and expanding their performance.

5.4.2. Descriptive Statistics of Organizational Factors

Organizational factors refer to antecedents (such as top management emphasis, employee training, reward system and type of organizational culture) and strategic orientations (such as market orientation and innovation). Hence, the mean, standard deviation, skewness, and kurtosis of each item are examined for irregularities (Matsuno, 1996).

I. Antecedent Factors

Descriptive statistics (i.e., mean, standard deviation, Skewness, and Kurtosis of items) of top management emphasis, employee training, and reward system are reported in Table 5.8.

Table 5.8 Descriptive Statistics of Organizational Antecedents

	Mean	SD	Skewness		Kurtosis	
			S	SE	S	SE
Top Management Emphasis	4.22					
Adaptability to Market Trends	4.27	1.36	-0.57	0.17	-0.50	0.33
Sensitivity to Competitors Actions	4.01	1.28	-0.39	0.17	-0.52	0.33
Focus on Customer Future Needs	3.82	1.38	-0.22	0.17	-0.74	0.33
Focus on Customer Services	4.79	1.15	-0.96	0.17	0.45	0.33
Employee Training	3.35					
Formal Training on Customer Services	3.52	1.38	-0.06	0.17	-0.76	0.33
Intelligence Generation and Dissemination.	3.00	1.33	0.30	0.17	-0.57	0.33
Training on Understanding Customer Needs	3.12	1.41	0.16	0.17	-0.78	0.33
Training on Customer Awareness	3.74	1.63	-0.31	0.17	-1.12	0.33
Reward System	3.09					
Sensitivity to Competitors Actions	3.03	1.52	0.30	0.17	-0.92	0.33
Customer Satisfaction and Managers' Pay	2.65	1.61	0.65	0.17	-0.76	0.33
Rewarding Market Intelligence Generation	2.63	1.55	0.60	0.17	-0.78	0.33
Salespeople Relationship with Customers	3.54	1.38	-0.23	0.17	-0.67	0.33
Salespeople's Monetary Benefit	3.20	1.49	0.09	0.17	-1.00	0.33
Salespeople Evaluation	3.49	1.39	-0.36	0.17	-0.88	0.33

S - Statistics; SE - Standard Error SD-Standard Deviation

Each of the factors is measured using a 6-point Likert scale that ranges between strongly disagree (1) and strongly agree (6).

Based on this, the overall *top management emphasis on market orientation* is 4.22, with the highest emphasis on *customer services* (4.79) and the lowest emphasis on *customer future needs* (3.82).

Enhancing employees capacity through training (i.e., the capacity to serve customers; to generate, disseminate, and utilize intelligence; and to understand current and future customer needs) is low (3.35) with low emphasis on all of the factors within it. Especially, the effort invested by the organizations to train employees on market intelligence generation is the lowest (i.e. 3.00).

The reward systems of the respondent organizations are tailored to the market factors (3.09) but not as such high. Intelligence generation efforts of the employees (2.63) and customer satisfaction strategies and activities of the managers (2.65) are the least rewarded by the target organizations.

All of the items in Table 5.8 are not kurtotic and skewed because the values of these measures are below 1 in absolute value.

The type of organizational culture of the sample organizations is reported in Table 5.9.

Table 5.9 Descriptive Statistics of Type of Organizational Culture

	Mean	SD	Skewness		Kurtosis	
			S	SE	S	SE
Clan Culture	2.18					
The organization is a very personal place	2.06	1.53	1.31	0.17	3.42	0.33
Leadership exemplify mentoring	2.13	1.29	0.82	0.17	0.23	0.33
Management characterized by teamwork	2.60	1.79	0.77	0.17	0.63	0.33
The glue is loyalty and mutual trust	2.18	1.55	1.09	0.17	2.56	0.33
Emphasis on human development	2.00	1.45	1.33	0.17	3.99	0.33
Definition of success based on HR development	2.12	1.54	1.65	0.17	5.43	0.33
Adhocracy Culture	2.02					
The organization is very dynamic	2.10	1.44	1.53	0.17	5.00	0.33
Leadership exemplify entrepreneurship	2.23	1.49	1.31	0.17	3.68	0.33
Management characterized by innovation	1.79	1.40	0.91	0.17	0.60	0.33
The glue is commitment to innovation	1.88	1.38	1.64	0.17	5.75	0.33
Emphasis on acquiring new resources	2.05	1.36	0.72	0.17	0.70	0.33
Definition of success based on new product development	2.04	1.53	0.83	0.17	0.27	0.33
Market Culture	2.67					
The organization is very results-oriented.	2.74	1.21	0.19	0.17	-0.01	0.33
Leadership exemplify a results orientation	2.28	1.37	0.48	0.17	0.77	0.33
Management emphasized competitiveness	2.62	1.60	1.47	0.17	4.37	0.33
The glue is the emphasis on achievement	2.85	1.58	1.79	0.17	6.02	0.33
Competitive actions and achievement	2.73	1.43	0.68	0.17	1.24	0.33
Success is defined as winning in the market	2.80	1.45	1.26	0.17	5.04	0.33
Hierarchy Culture	3.14					
Organization is controlled and structured	3.18	1.63	0.18	0.17	-0.61	0.33
Leadership exemplify coordinating	3.44	1.78	0.26	0.17	-0.24	0.33
Management characterized by predictability	2.95	1.62	0.45	0.17	-0.32	0.33
The glue is formal rules and policies	3.13	1.80	0.26	0.17	-0.52	0.33
Emphasis on permanence and stability	3.13	1.77	0.45	0.17	0.38	0.33
Definition of success based on efficiency	3.03	1.89	0.65	0.17	0.41	0.33

S - Statistics; SE - Standard Error SD-Standard Deviation

Respondents are asked to attach weights to each of the scale items under the four cultural types where the weights range between 0 (the item is not similar to the respondent's organization characteristics) and 10 (the item is very similar to the respondent's organization).

The results of the descriptive statistics in Table 5.9 above show that target organizations did not have one significantly dominant cultural type with the average value of clan culture 2.18, adhocracy culture 2.01, market culture 2.67, and hierarchy culture 3.14. The hierarchy culture (3.14) is the highest and can be considered as the common type of culture in the Ethiopian manufacturing sector. The findings are consistent with the real practices as most of the organizations found in Ethiopia are hierarchically structured; guided by policies, rules, and regulations; and thus they are less flexible.

According to Cameron and Quinn (2006), understanding the dominant culture and interpreting its harmony with the nature of the business environment is critically important. Here, strong hierarchy culture (3.14) and weak adhocracy culture (2.01) are not favorable cultural characteristics to adopt and develop strategic orientations (i.e., market and innovation orientations).

Most measurement items of organizational culture show skewness and kurtosis values of greater than 1 in absolute value. The skewed variables include CL1 (1.3), CL4 (1.1), CL5 (1.3), CL6 (1.6), AD1 (1.5), AD2 (1.3), AD4 (1.6), MR3 (1.5), MR4 (1.8), and MR6 (1.3). Highly kurtotic measures of organizational culture include CL1 (3.4), CL4(2.6),CL5(4.0),CL6 (5.4), AD1(5.0), AD2(3.7), AD4(5.8), MR3(4.4), MR4(5.0), and MR6(6.0). This implies that high skewness and kurtosis affect the normality assumption underlying most multivariate statistical techniques such as structural equation modeling (Pallant, 2011).

5.4.3. Descriptive statistics of Strategic Orientations

I. Market Orientation

Descriptive statistics of market orientation dimensions are presented in Table 5.10.

Table 5.10 Descriptive Statistics of Market Orientation Variables

	Mean	SD	Skewness		Kurtosis	
			S	SE	S	SE
Market Orientation	3.83					
Customer Orientation	3.91					
Commitment to serve customers needs	3.90	1.43	-0.35	0.17	-0.69	0.33
Customer Satisfaction and Business Objectives	4.41	1.18	-0.92	0.17	0.68	0.33
Customer needs and strategy	4.29	1.36	-0.55	0.17	-0.51	0.33
Value Creation	4.11	1.34	-0.58	0.17	-0.49	0.33
Measuring customer satisfaction	3.34	1.41	0.02	0.17	-0.87	0.33
After Sale Services	3.41	1.45	-0.11	0.17	-0.93	0.33
Competitors Orientation	3.80					
Responding to competitive actions	3.71	1.39	-0.19	0.17	-0.69	0.33
Information sharing by salespeople	3.82	1.19	-0.45	0.17	-0.07	0.33
Competitors strengths and strategies	3.76	1.31	-0.14	0.17	-0.64	0.33
Competitive advantage	3.92	1.31	-0.56	0.17	-0.20	0.33
Inter-functional Coordination	3.76					
Functional Integration	4.08	1.27	-0.47	0.17	-0.24	0.33
Departments' Responsive	3.94	1.30	-0.53	0.17	-0.32	0.33
Customer visit	3.24	1.48	0.05	0.17	-1.03	0.33
Share information about customer	3.89	1.15	-0.41	0.17	-0.07	0.33
contribution to customer values	3.63	1.44	0.02	0.17	-0.98	0.33

S - Statistics; SE - Standard Error SD-Standard Deviation

Dimensions of market orientation are measured using 6-point Likert scale which ranges from 1 (strongly disagree) to 6 (strongly agree). The level of market orientation of target organizations is low (3.83) with low customer orientation (3.91), competitor orientation (3.80) and inter-functional coordination (3.76). The value of inter-functional coordination (3.76) is consistent with the value of hierarchy culture (the dominant culture); that is,

hierarchy culture restricts free interactions between departments. The structure of Ethiopian organizations is characterized by hierarchical and a highly fragmented functional division where departmental thinking is high, formal communication is inefficient, and information sharing practice is poor.

Low competitor orientation (3.80) might imply that the business environment is not competitive. Most business sectors in Ethiopia are not sufficiently open for global competition and the demand exceeds the supply for most of the manufacturing products. Such situations do not encourage competitiveness and restrict the identification and satisfaction of customer needs (customer orientation) (WEF-ACR, 2015).

The kurtosis and skewness values of market orientation measures are below 1 in absolute value that shows the items are not skewed and kurtotic. This implies that the data fulfils univariate normality assumptions.

II. Descriptive Statistics of Innovation

Descriptive statistics of innovation measures are presented in Table 5.11.

Table 5.11 Descriptive Statistics of Innovation Items

	Mean	SD	Skewness		Kurtosis	
			S	SE	S	SE
Innovation	3.63					
Number of innovative products	3.87	1.21	-0.47	0.17	-0.38	0.33
Newness of the Manufacturing Process	4.07	1.19	-0.45	0.17	-0.07	0.33
Production Capacity and Flexibility	4.13	1.12	-0.38	0.17	-0.06	0.33
Frequency of Changes on Production Methods	3.67	1.06	-0.04	0.17	0.17	0.33
Altering organizational design	3.73	1.25	-0.27	0.17	-0.62	0.33
R&D Budget	2.83	1.31	0.08	0.17	-0.96	0.33
Technology Sourcing and Adaptation	3.37	1.30	-0.11	0.17	-0.77	0.33
Introducing state of the art technology	3.37	1.34	-0.09	0.17	-0.84	0.33

S - Statistics; SE - Standard Error SD-Standard Deviation

The ability of the firm to translate plans and programs to improve the manufacturing and administrative processes are also important; and responses, in this regard, are measured using 6-point Likert Scale ranging from very low (1) to very high (6). The adhocracy and hierarchy culture are modeled as antecedents of innovation (Figure 5.1) to see whether a culture that encourages innovation, risk-taking and entrepreneurship is a requirement to carryout actual innovation practices (Hurly & Hult, 1998).

Statistical results of the product, process, and administrative innovation activities of the companies are reported in Table 5.11 above. The average response of respondents to the innovation items is close to a rather low (3.63) except for the better performance in introducing new processes (4.07) and upgrading production capacity (4.13) which had the highest averages. These relatively good achievements in introducing new processes and upgrading capacity might be the result of the recent attempt at replacing older

manufacturing plants with new ones. The other reason could be that new manufacturing processes are introduced and capacity has been upgraded in recently privatized companies. Administrative innovation results such as R&D budget (2.83), changes in organizational architecture (3.73), and technology sourcing and adaptation (3.37) are low. The kurtosis and skewness values of innovation measures are below 1 in absolute value that shows the items are not skewed and kurtotic.

5.4.4. Descriptive statistics of Marketing Capabilities

Table 5.12 presents descriptive statistics of marketing capabilities.

Table 5.12 Descriptive Statistics of Marketing Capability Components

	Mean	SD	Skewness		Kurtosis	
			S	SE	S	SE
MARKETING CAPABILITIES	3.75					
Pricing Skills	4.20	1.25	-0.57	0.17	0.00	0.33
Monitoring Competitors Prices	4.27	1.20	-0.77	0.17	0.45	0.33
Product Development	4.23	1.17	-0.45	0.17	-0.17	0.33
Launching new products	4.05	1.19	-0.69	0.17	0.23	0.33
Develop products to satisfy customer needs	4.32	1.15	-0.55	0.17	0.16	0.33
Relationships with distributors	4.00	1.33	-0.41	0.17	-0.35	0.33
Attracting and retaining distributors	3.91	1.27	-0.28	0.17	-0.63	0.33
Providing support to distributors	3.79	1.25	-0.25	0.17	-0.48	0.33
Promotion Effectiveness	3.53	1.36	-0.10	0.17	-0.87	0.33
Brand image building	3.84	1.44	-0.38	0.17	-0.61	0.33
Corporate Image building	3.90	1.35	-0.40	0.17	-0.57	0.33
Segmentation and targeting	3.67	1.38	-0.36	0.17	-0.56	0.33
Strategy formulation	3.40	1.41	-0.04	0.17	-0.74	0.33
Marketing program development	3.41	1.43	-0.06	0.17	-0.81	0.33
Implementation strategy and program	3.48	1.30	-0.23	0.17	-0.56	0.33
Monitoring performance	3.52	1.34	-0.24	0.17	-0.66	0.33

S – Statistics; SE - Standard Error SD- Standard Deviation

Market oriented companies have distinctive marketing capabilities (marketing strategy and marketing mix capabilities) (Guenzi & Troilo, 2006) and the exercise of each marketing mix element provides new market orientation insight (Day, 2011). Statistical results of the marketing strategy and marketing mix capabilities of companies are presented in Table 5.12. Using a 6-point Likert scale ranging from much worse (1) to much better (6), the average marketing mix capabilities of organizations is good (4.00) and the capabilities to formulate and implement strategies are not strong (3.50). Overall, the average marketing capabilities of organizations is weak (3.75) and the result is consistent with the extent of the companies' market orientation (3.83). This implies that organizations are not tailoring their marketing strategies and programs to key market factors (customers and competitors) and thus they are not in a position to generate insights out of practicing the marketing mix.

The kurtosis and skewness values of marketing capabilities measures are below 1 in absolute value that shows the items are not skewed and kurtotic.

5.4.5. Descriptive statistics of Competitiveness Indicators

Table 5.13 presents statistics of competitiveness of indicators.

Table 5.13 Descriptive Statistics of Competitiveness Indicators

	Mean	SD	Skewness		Kurtosis	
			S	SE	S	SE
Entering New Market	3.62	1.33	-0.04	0.17	-0.58	0.33
Market share	4.29	1.29	-0.56	0.17	-0.13	0.33
ROI	4.05	1.16	-0.58	0.17	-0.04	0.33
Productivity	3.58	1.23	-0.31	0.17	-0.29	0.33

S – Statistics; SE - Standard Error SD- Standard Deviation

Using the Likert scale ranging from 1 (not at all) to 6 (a great deal), the contributions of being market-and innovation-oriented to competitiveness are relatively high in terms of market share (4.29) and ROI (4.05). The impact of the strategic orientations (market orientation and innovation) on the organizations' ability to enter a new market (3.62) and enhance productivity (3.58) is low. The results are consistent with the average market orientation (3.83) and innovation (3.63) of firms. In other words, low results of competitiveness indicators could be attributed to low market orientation and innovation.

The kurtosis and skewness values of competitiveness measures are below 1 in absolute value that shows the items are not skewed and kurtotic.

5.4.6. Summary of Descriptive Statistics Results

Descriptive analyses of demographic variables, organizational variables and outcome variables are discussed. The demographic data show that (1) major industries under the manufacturing sector are represented in the study; (2) the views of both marketing managers and top managers are included in evaluating organizational practices under investigation; (3) the work experiences of respondents and the ages of the target companies are appropriate to adequately react to survey questions; and (4) the performances of the target companies in terms of sales volume indicate that organizations need deliberate and justified organizational orientations.

Similarly, the descriptive statistics of organizational factors are presented. In this regard, the average of respondents' answers indicated that antecedents, such as top management emphasis (4.22), employee training (3.35) and reward system (3.09), are low. As far as

the dominant culture is concerned, it is found out that all types of organizational culture exist at a similar level. But, the hierarchy culture is found to be the highest (3.14), followed by the market culture (2.67).

The mean values of market orientation (3.83), innovation (3.63), and marketing capabilities (3.75) show that strategic orientations and capabilities are not developed in the manufacturing sector under study. Corresponding to this, the impact of such orientations is not observed on the competitiveness indicators.

5.5. Assessment of the Measurement Model

An assessment of the measurement model validity and reliability is a prerequisite for testing hypotheses and drawing inferences, for the simple reason that no valid conclusions exist without valid measurement (Hair et al., 2010). In this section, the Confirmatory Factor Analyses (CFA) of constructs are conducted in order to determine how well the measured variables represent the respective constructs as described in the conceptual framework of the study. In addition, the construct validity test results are presented and discussed together with the CFA results to further ensure the quality of measures (Hair et al, 2010).

Therefore, the study examined the measurement validity and reliability of antecedent factors (top management emphasis, employee training, reward system, and types of organizational culture), strategic orientations (market orientation and innovation), marketing capabilities (product, price, distribution, promotion, and marketing strategy), and performance measure (competitiveness).

5.5.1. Constructs and Measures

Table 5.14 presents constructs and the number of measurement items in each construct.

Table 5.14 Constructs and Measures

Constructs	Number	Remark
Antecedents	14	
Top Management Emphasis	4	
Employee Training	4	
Reward System	6	
Organizational Culture:	24	
Clan Culture	6	
Adhocracy Culture	6	
Market Culture	6	
Hierarchy Culture	6	
Strategic Orientations	23	
Market Orientation	15	
Customer Orientation	6	
Competitor Orientation	4	
Inter-functional Coordination	5	
Innovation	8	
Strategic Marketing Capabilities	16	
Demographic Factors	6	
Performance Measure	4	

This section presents validity and reliability of measures of antecedents, strategic orientations, marketing capabilities and performance indicators are presented and discussed in the present section. Demographic factors such as industry type, number of employees, job positions of respondents, experience of respondents, company age, and annual turnover are described sufficiently in section 5.4.

5.5.2. Measurement Model Assessment Criteria

One assessment criterion that is used to evaluate unidimensionality of measures is allowing measures of all constructs to correlate with each other and check whether one measured item loads on only one construct (Hair et al 2010; Byrne, 2010). Accordingly, the four items of the top management emphasis construct, for example, are expected to load on top management emphasis alone or exhibit a non-zero loading on top management emphasis; there should be correlation between the four factors of top management emphasis construct; and error terms associated with each factor are expected to be uncorrelated (Byrne, 2010). Similar procedures are followed of the other constructs and measures.

In other words, factorial reliability and validity of the measurement model should be assessed and explained. Reliability refers to the internal consistency of a set of indicators of a latent construct, and it indicates the extent to which all indicators of a construct measures only the construct it represents rather than something else (Hair et al, 2010). The regression coefficients of SEM models indicate reliability and, more importantly, SEM provides accurate reliability values by correcting the amount of measurement error in the variable (Byrne, 2010; Hair et al, 2010). Reliability alone does not guarantee that the measures are accurate. Hence, the validity of factors should also be measured.

The validity of factorial structure of assessment measures can be examined by fitting the hypothesized measurement model to the data (Byrne 2010; Hair et al., 2010; Kline, 2011). For this purpose, several model fit indices are proposed by different authorities in order to check how well the hypothesized model fits the data (Hair et al, 2010). Many goodness-

of-fit indices that have been used by researchers to date have been categorized under three general types, which include 1) Absolute Fit Indices such as Chi-square (χ^2), Goodness-of-fit Index (GFI), Standardized Root Mean Square Residual (SRMR), and Root Mean Square Error of Approximation (RMSEA); 2) Incremental Fit Indices such as Normed Fit Index (NFI), Comparative Fit Index (CFI), and Tucker Lewis Index (TLI); and 3) Parsimony Fit Indices such as Parsimony-Goodness-of-Fit Index (PGFI) and Parsimony Normed Fit index (PNFI) (Hair et al, 2010).

The strongest challenge to answer the question of 'fit' or 'measurement model validity' is the choice among these fit indices. Because there is no clear answer as to 'which fit statistics objectively reflect a model's fit' and 'what are the objective cutoff values for each fit index.' To address this challenge, Hair et al (2010) suggested applying multiple indices of different kinds and adjusting the cutoff values based on model characteristics. Similarly, Hoyle (1995) and Byrne (2010) recommended that the choice of the model fit indices should take into account the sample size, estimation procedure, model complexity and/or violation of the underlying multivariate normality and variable independence assumptions.

Hair et al (2010) recommended applying at least one incremental index and one absolute fit index in addition to the use of χ^2 value and the associated degree of freedom and p-value. According to the authors, it is sufficient to report CFI and RMSEA values.

Regardless of its unacceptable fit results because of the sensitivity to sample size and distributional properties, it is always appropriate to report χ^2 (with the associated degree of freedom and p-value).

In addition, the choice of fit indices in this study considered the practices of prior researchers in the areas of market orientation and innovation. The indices used by Matsuno (1996), Brown (2003), Im and Workman (2004), Dursun-Kilic (2005), and Zhou et al. (2009) are also used in this study. Table 5.15 presents the fit indices and the suggested cutoff point to the study at hand.

Table 5.15 Model Fit indices

Measurement Technique	Suggested Cutoff Values/criterion
Model Fit Techniques	
χ^2 (DF, P-value)	Significant p-value
RMSEA	< 0.08
CMIN/DF	< 3.0
CFI	> 0.92
SRMR	<0.90
Construct Validity Measures	
Convergent Validity	Factor loadings > 0.5
Discriminant Validity	No cross loading

5.5.3. Assessment of Measurement Model Fit

In this subsection, the study examined the validity of measurement models by using the criteria presented in Table 5.15. The purpose is to determine how each measurement model fits the data. The analytical procedure involved evaluating each construct separately (Matsuno, 1996) and then combining constructs in order to see possible cross-loadings (Hair et al., 2010).

5.5.3.1. Confirmatory Factor Analysis (CFA) of Organizational Factors

1. CFA of Top management Emphasis, Employee Training, and Reward System

The aim of CFA is to examine how measured items of organizational factors (such as top management emphasis, employee training, and reward system) come together to represent the respective constructs. The number of measured items of top management emphasis, employee training, and reward system is 4, 4, and 6 respectively. Hence, the CFA model examines 14 measurement items. Figure 5.2a presents CFA model of organizational factors and Table 5.16a presents the CFA analysis results of the AMOS program.

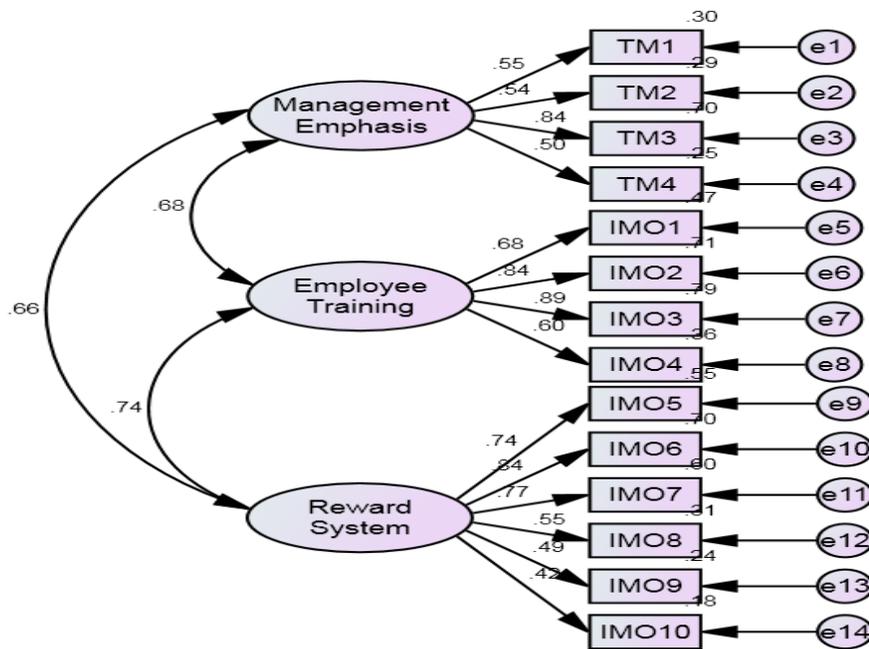


Figure 5.2a Measurement Model of Organizational Factors

Table 5.16a Measurement Model of Organizational Factors

Indices	Criteria	Result
χ^2	-	286.28
df	-	74
p	>0.05	0.000
CMIN/DF	<3	3.86
CFI	> 0.92	0.83
RMSEA	<0.08	0.119
SRMR	<0.9	0.086

The first iteration did not produce a good fit. The χ^2 result is not significant because the p-value is less than 0.05; CMIN/DF exceeds 3; and CFI value is 0.83 which is below 0.92.

Hence, modifying the model by analyzing the results generated by the AMOS program is the next stage. As recommended by Hair et al (2010) and Byrne (2010), the diagnosis should consider factor loading estimates, standardized residuals and modification indices.

The ideal loading estimate is 0.7 (Hair et al., 2010), and the acceptable standardized estimate is less than or equal to 1.96 (Hoe, 2008) and 2.5 (Hair et al 2010) in absolute value. Modification indices also suggest cross-loadings and covariance of error terms.

Accordingly, the standardized regression weights of the three items of top management emphasis construct (TM1, TM2, and TM4) are 0.55, 0.53 and 0.50 respectively; the three items of reward system construct (IMO8, IMO9 and IMO10) show factor loadings of 0.55, 0.49 and 0.42 respectively. Some of these items also exhibited significant cross-loading (e.g., TM4 on IMO4) and high error covariance (e.g., between error terms of IMO8 and IMO10). The full AMOS results are reported in Appendix 6.1.

Since three out of four items of top management construct loaded below the 0.7 ideal cutoff point, it is decided to delete the entire construct. This is because taking only one

valid indicator violates the 3 indicators per construct rule of thumb (Hair et al., 2010). Three of the reward system indicators are also deleted because of a very low regression weight. The modification indices also suggested a correlation between e6 (IMO2) and e8 (IMO4). Both items are about the use of customer satisfaction report as a base to compensate top managers (IMO2) and salespeople (IMO4). This might have confused respondents while rating. It is decided to correlate the error terms. Several iterations are made to see alternative results by deleting one item at a time. Figure 5.2b and Table 4.15b present the final model and the model fit results

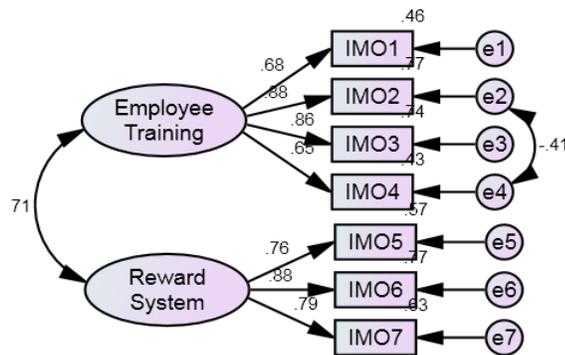


Figure 5.2b Measurement Model of Organizational Factors

Table 5.16b Measurement Model of Organizational Factors (Model 2)

Indices	Criteria	Result
χ^2	-	24.31
df	-	12
p	>0.05	0.018
CMIN/DF	<3	2.03
CFI	> 0.92	0.98
RMSEA	<0.08	0.07
SRMR	<0.9	0.045

This model shows a high fit with a significant reduction in χ^2 (from 286.28 to 24.31), CMIN/DF (from 3.86 to 2.02), RMSEA (from 0.119 to 0.07 and with a PCLOSE value of

0.18 which is greater than 0.05), SRMR (from 0.086 to 0.045), but significant increase in CFI (from 0.83 to 0.98). Therefore, the model is accepted for further analysis.

In addition to examining how the model fits the actual observation using different fit indices, the study evaluates the convergent and discriminant validity of measures. The assessment applied two criteria suggested by Hair et al (2010) such as factor loadings and percentage of variance extracted results. Hence, the two validity dimensions are examined by identifying potential cross-loadings and convergence among measured items. Results are presented and discussed as follows.

Table 5.16c Convergent and Discriminant Validity of Measures of Organizational Factors

Construct	Item	Factor Loadings	% Variance Extracted
Employee Training	IMO1	0.68	58.45
	IMO2	0.88	
	IMO3	0.86	
	IMO4	0.65	
Reward System	IMO5	0.76	65.46
	IMO6	0.88	
	IMO7	0.79	

The path estimates of all items are above the minimum suggested loadings of 0.5 and most of them (5 out of 7 items) are above the ideal 0.7 cutoff point. Similarly, the variance extracted for two constructs are 58.45% and 65.46% which are above the 50% cutoff point (Hair et al, 2010). Hence, it is concluded that the measures fulfill convergent validity criteria.

The final model did not show significant cross loadings and as a result the measurement model supports discriminant validity of measures.

2. CFA of Types of Organizational Culture

The dominant type of organizational culture is also a factor that is used to describe an organization's characteristic. The conceptual model, presented in section 5.1, shows four types of organizational cultures namely clan, adhocracy, market, and hierarchy. Each type consists of six indicator variables that make a total of twenty four organizational culture assessment questions. As it is done for other antecedent constructs, confirmatory factor analyses of the four organizational culture constructs are conducted. Figure 5.3a depicts the path diagram that shows relationships between constructs and variables and factor loadings of the initial iteration. Figure 5.3b presents relationships between constructs and indicators that remain after removing poorly fit components as well as the final loading estimates. Model fit results of the initial and the final model are presented in Table 5.17a and Table 5.17b respectively. Complete AMOS results for the initial as well as subsequent models are given in Appendix 6.2.

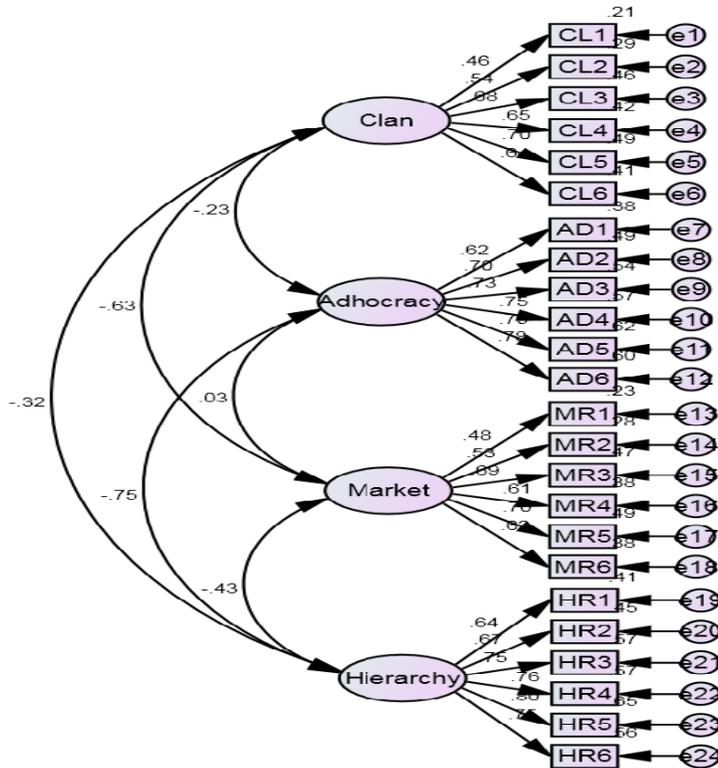


Figure 5.3a Measurement Model of Organizational culture

Table 5.17a Measurement Model of Organizational Culture

Indices	Criteria	Result
χ^2	-	2727.64
df	-	246
p	>0.05	0.000
CMIN/DF	<3	11.08
CFI	> 0.92	0.50
RMSEA	<0.08	0.223
SRMR	<0.9	0.098

The results show very poor model fit with large χ^2 value (2727.64), large CMIN/DF (11.08) which is well above the 3.0 cutoff point, higher RMSEA result (0.223) which is greater than the 0.08 cutoff point, the SRMR value (0.098) which is closer to 1, and very low CFI (0.50) which is lower than the 0.9 cutoff point. Hence, the initial model is

discarded because of poor model fit; and other model fitting actions and iterations are taken without violating the underlying theoretical justifications. The major actions are discussed as follows:

The first model fitting attempt is made by removing measures with lower factor loadings. The deleted measures are MR2, HR2, HR1, CL2, AD2, AD1, MR1, HR6, AD6, CL6, CL1 and MR. Several iterations are carried out since the model fitting procedure follows item by item evaluation. Deletion of these items did not show significant improvement with still large χ^2 value of 836.90, CMIN/DF value of 17.43 (which is even larger than the first model), RMSEA value of 0.285 (which is higher than the previous), and CFI 0.64. Hence, this model could not be used for further analysis.

The second model fitting attempt is concerned with investigating the results of every construct. From the above two model fitting results and from the results presented in the descriptive statistics section, it is found that clan culture is a poorly fitted construct. This is because, first, the regression weights of all the indicators in the first model are below 0.7 cutoff point; second, all indicators exhibited large, above 2.5 in absolute value, standardized residual covariance; and finally, most indicators loaded on indicators in other constructs. Hence, it is decided to remove the clan construct and rerun the model fitting test. In this iteration, even though the model did not fit well into the data, improvements are observed in some fit indices: χ^2 value reduced from 2727.64 to 699.08, CMIN/DF reduced from 11.08 to 5.29, RMSEA also decreased from 0.223 to 0.14, and CFI increased from 0.64 to 0.72. Despite the improvements, all indices are below the suggested cutoff points.

The third model fitting attempt considered on evaluation of the remaining indicators based on their factor loading, residual covariance, and error covariance results.

Accordingly, items such as AD1, AD3, AD5, MR2, MR4, MR5, HR2, and HR6 are removed. Figure 5.3b and Table 5.17b present the final model and the model fit results respectively.

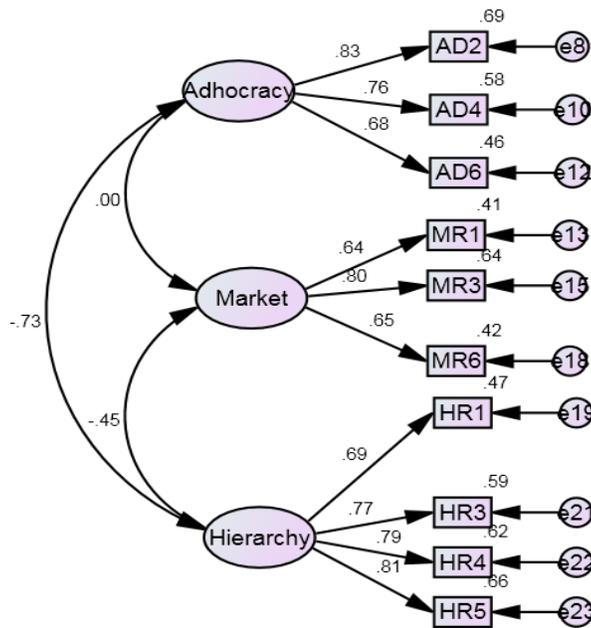


Figure 5.3b Measurement Model of Organizational Culture

Table 5.17b Measurement Model of Organizational Factors- Culture

Indices	Criteria	Result
χ^2	-	64.37
df	-	32
p	>0.05	0.001
CMIN/DF	<3	2.01
CFI	> 0.92	0.96
RMSEA	<0.08	0.071
SRMR	<0.9	0.047

As depicted in Table 5.17b, the model fitted well into the observed data with lower χ^2 value of 64.37, CMIN/DF value of 2.01, RMSEA value of 0.71 (PCLOSE is 0.09, which is greater than 0.05), SRMR value of 0.047, and larger CFI value of 0.96. Statistically, the number of measures for each construct is adequate because Hair et al (2010) suggested a minimum of three indicators per construct. There are also practical justifications to remove these indicator variables.

From the perspective of the Ethiopian business practices, management of business organizations in least developed economy (such as Ethiopia) is not as such dynamic (AD1), shows minimal effort to look for opportunities or to try something new (AD5) and emphasis is more on control rather than on encouraging individual freedom and risk-taking (AD3). In addition, the management is not aggressive in terms of developing and hitting stretched goals (MR2 and MR5); rather, it emphasizes the development of control systems that is not systematically related to the achievement of fundamental goals (MR4). Finally, although the focus of management is more on control through the development of systems and policies, they are not doing them properly in a way that brings about efficiency and organizational success (HR2 and HR6). Hence, these items are less relevant to explain the Ethiopian business context.

Based on the accepted model, convergent and discriminant validity of measures are also examined. Table 5.17c presents factor loadings and percentage of variance extracted results.

Table 5.17c Construct Validity of Measures of Organizational Culture

Construct	Item	Factor Loadings	% Variance Extracted
Adhocracy Culture	AD2	0.83	58.73
	AD4	0.76	
	AD6	0.68	
Market Culture	MR1	0.64	48.85
	MR3	0.80	
	MR6	0.65	
Hierarchy Culture	H41	0.69	57.53
	HR3	0.77	
	HR4	0.79	
	HR5	0.81	

The path estimates of all items are above the minimum suggested loadings of 0.5 and most of them (6 out of the 11 items) are above the ideal 0.7 cutoff point. The variance extracted for adhocracy, market, and hierarchy cultures are 58.73%, 48.85%, and 57.53% respectively which, except the market culture, are above the 50% cutoff point. Adhocracy culture and hierarchy culture constructs fulfilled both criteria of convergent validity. The variance extracted percentage of market culture is below the 50% cutoff point. Since the convergent validity of market culture is acceptable in terms of the factor loading criteria, it is decided to retain the construct for further analysis. Discriminant validity of constructs and measures are checked in the model fitting process. Hence, the final CFA model did not show any significant cross loading.

5.5.3.2. Confirmatory Factor Analysis (CFA) of Strategic Orientations

In this section, CFA of market orientation and innovation constructs are made based on the analysis approaches used in the previous sections.

1. CFA of Market Orientation Construct

Market orientation is a second order construct that is defined by other first order constructs such as customer orientation, competitors' orientation, and inter-functional coordination (Narver & Slater, 1990).

As indicated in most research work on market orientation, customer orientation, competitors' orientation, and inter-functional coordination are not components that form market orientation construct. Rather, they are treated as reflections of an organization's degree of market orientation. Despite the wider use of the three constructs as reflections, scholarly attempts have been made to test these components as formative elements of market orientation construct (Coltman, Devinney, Midgley & Venaik, 2008).

Taking the reflective perspective, the study examined the factorial validity of the three exogenous latent variables. In so doing, two-level confirmatory factor analyses are conducted. First, the validity and reliability of the three market orientation constructs are examined in terms of factor cross-loadings, covariance among constructs, model fit indices, and construct validity. Second, assessment of how the three constructs load on the second order construct (i.e., market orientation) is made. Third, construct validity of measures is determined based on the analysis of the two stages.

A. First order CFA of Market Orientation

Customer orientation, competitor's orientation, and inter-functional coordination constructs consist of 6, 4, and 5 indicator variables respectively. Figure 5.4a depicts the path diagram that shows relationships between these market orientation constructs. Figure 5.4b shows the path diagram of constructs and indicators along with factor loadings after all the necessary re-specification activities have been made. Figure 5.4c, presents the path diagram of summated market orientation scale. Corresponding to each figure, model assessment results are presented in Tables.

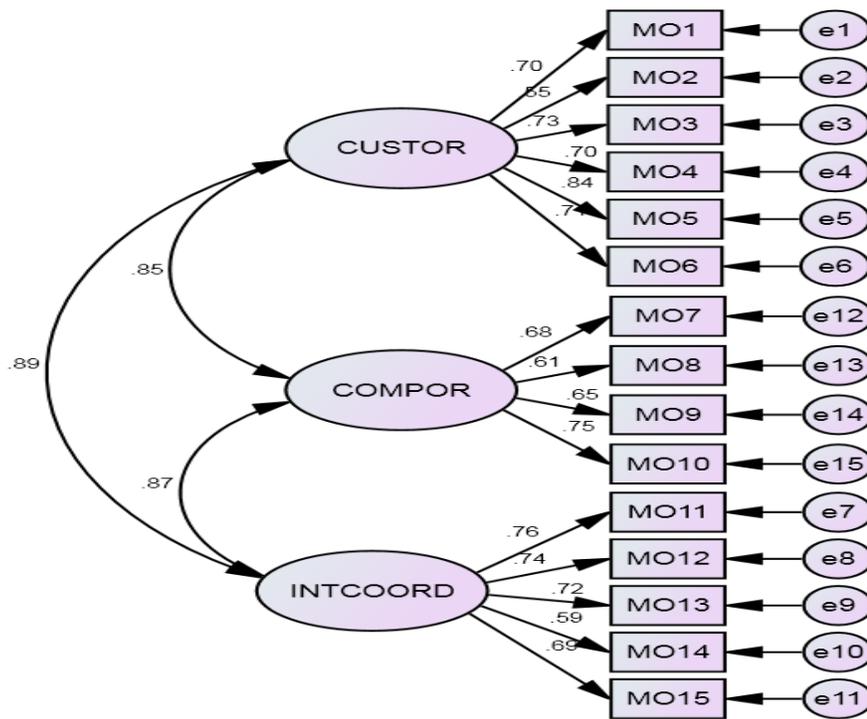


Figure 5.4a Measurement Model of Market Orientation

Table 5.18a Measurement Model of Market Orientation

Indices	Criteria	Result
χ^2	-	224.97
df	-	87
p	>0.05	0.000
CMIN/DF	<3	2.59
CFI	> 0.92	0.91
RMSEA	<0.08	0.088
SRMR	<0.9	0.057

The regression weights of indicator variables (Figure 5.4a) are greater than 0.6 except MO2 and MO14. All factor loadings are greater than the minimum threshold of 0.5; and 5 out of 6 customer orientation items, 3 out of 4 competitor orientation items, and 1 out of 5 inter-functional coordination items meet or exceed the ideal loading threshold of 0.7 (Hair et al 2010). The estimate of covariances among constructs is close to 0.8 (between COMPOR and other two constructs) and greater than 0.8 (between CUSTOR and INTCOORD).

Appendix 6.3 presented results of the model fit indices. The model fit indices show a marginal fit with χ^2 value of 224.97, CMIN/DF value of 2.58, CFI of 0.91, RMSEA of 0.08, and SRMR of 0.057. This model met the minimum suggested cutoff point in terms of its CMIN/DF, CFI, and RMSE results and a good fit in terms of SRMR. Hence, it is concluded that although the model marginally fits the data, exploring a better fitting model is necessary.

The modification indices and factor loadings discussed earlier suggested model improvement alternatives. Accordingly, regression weights, residual covariances and modification indices are used for model evaluation and re-specification. The second item

in the customer orientation construct (i.e. MO2) has a factor loading of 0.55 which is lower than the ideal weight of 0.7; the item also shows relatively higher residual covariance with MO7; the error term that correspond to MO2 shows a significant covariance with other error terms in the other two constructs. Similarly, the regression weight revealed that MO2 loads on items such as MO7 and MO11 and other items (such as MO15 and MO 13) load on MO2. MO2 is about tailoring business objectives to customers' needs and enhancing customers' level of satisfaction. Customer level of satisfaction can be interpreted from competitors' action point of view (MO7) as well as from the view point of organizational readiness to make internal arrangements and functional reconfigurations (MO11). Hence, there is clear overlap between MO2 and the other two items. Hence, it is decided to delete item MO2.

In addition, modification indices suggested that the model could further be improved by correlating error terms such as e7 (MO11) and e11 (MO15). The two error terms are allowed to correlate because respondents might have confused the two questions by interpreting customer value creation roles of employees (MO15) as the consequence of good coordination between functional units (MO11). Respondents might interpret the questions as 'if managers are good at coordinating functions, they would consider the value creation roles of employees.' This is because superior value creation requires very strong coordination among functions (Jaworski & Kohli, 1993; Narver & Slater, 1990). The path diagram and the model fit results of the final model are presented as follows.

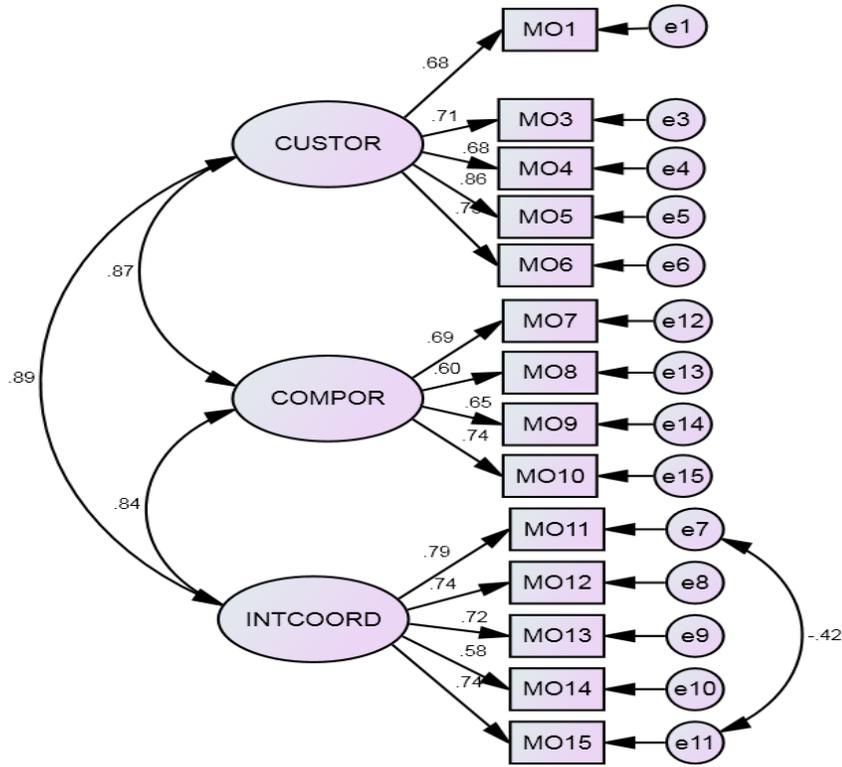


Figure 5.4b Measurement Model of Market Orientation

Table 5.18b Measurement Model of Market Orientation

Indices	Criteria	Result
χ^2	-	137.61
df	-	73
p	>0.05	0.000
CMIN/DF	<3	1.88
CFI	> 0.92	0.95
RMSEA	<0.08	0.066
SRMR	<0.9	0.044

The results represented a well fitted model with χ^2 value of 137.6 (lower than 224.97), CMIN/DF value of 1.88 (significantly lower than 3.00 cutoff), CFI of 0.95 (equal to the suggested ideal cutoff point), RMSEA of 0.06 (close to the ideal suggested cutoff point),

and SRMR of 0.044 (below the ideal 0.05 point). Hence, this model is accepted for further analysis.

B. Second order CFA of Market Orientation

Second order confirmatory factor analysis of constructs is conducted to examine overall factorial validity of Narver and Slater (1990) market orientation measures by determining how the second order construct (market orientation) loads on the first order constructs (CUSTOR, COMPOR and INTCORD). Figure 5.4c is the path diagram that depicts relationships between the first and second order constructs. Results of model fit indices are also presented in Table 5.18c.

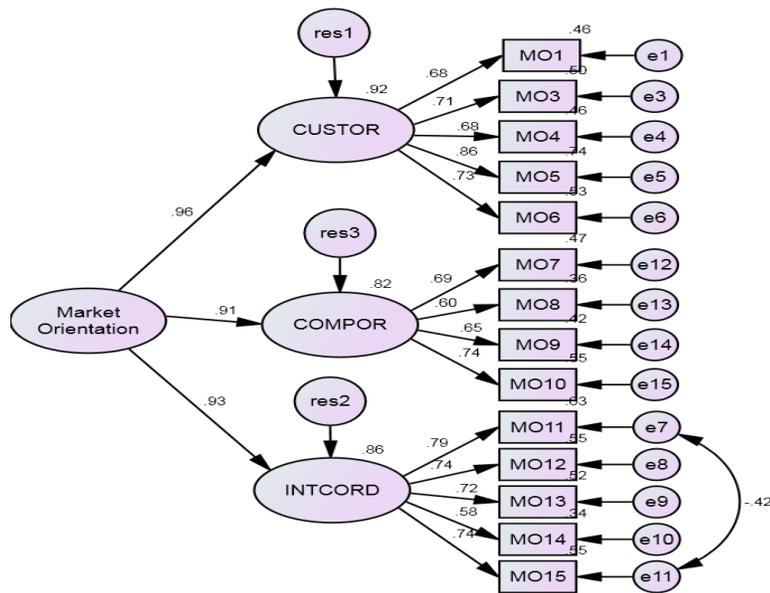


Figure 5.4c Measurement Model of Market Orientation (Second order CFA)

Table 5.18c Measurement Model of Market Orientation (Second order CFA)

Indices	Criteria	Result
χ^2	-	137.61
df	-	73
p	>0.05	0.000
CMIN/DF	<3	1.88
CFI	> 0.92	0.95
RMSEA	<0.08	0.066
SRMR	<0.9	0.044

Results of the second-order CFA are equivalent to the first-order CFA results, which is consistent with what Byrne (2010) stated about the first-and second-order CFA results. According to Byrne (2010), “given the same number of estimable parameters, fit statistics related to a model parameterized either as a first-order structure or as a second-order structure will basically be equivalent.” Hence, what is reported in Table 5.18b is the same as the results in Table 5.18c in which χ^2 is 137.6, CMIN/DF is 1.88, CFI is 0.95, SRMR is 0.044, and RMSEA is 0.06.

Covariation among the three first-order factors (CUSTOR, COMPOR, and INTCORD) is explained fully by their regression on the second-order factors. Figure 5.4d shows that market orientation load very significantly on CUTOR, COMPOR, and INTCORD with regression weights of 0.96, 0.91, and 0.93 respectively. Variables loading highly on a factor, in this case market orientation on the three first-order constructs and each of the three first-order constructs on their respective indicators, can be combined to form a single composite measure. This is because composite or summated scale has the advantages that it overcomes measurement errors and simplifies interpretation of results (Hair et al, 2010). Byrne (2010) also recommended that the choice between alternatives of

modeling measurement instruments should be guided by substantive meaningfulness in light of the underlying theory. Market orientation literature shows that studies applying the cultural market orientation scale developed by Narver and Slater (1990) usually form composite scale because of its advantages (e.g. Matsuno, 1996; Lamore, 2009; Dursun-Killik, 2005). Hence, the average score of the variables under each of the first order constructs is considered as a single measure and market orientation construct is modeled to include indicators such as CUSTOR, COMPOR, and INTCORD. The path diagram and the model assessment results are presented as follows.

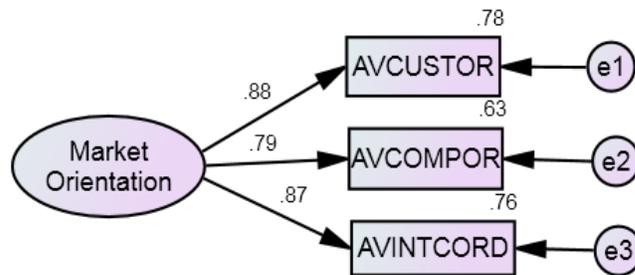


Figure 5.4d Measurement Model of Market Orientation (Composite Scale)

Table 5.18d Measurement Model of Market Orientation (Composite Scale)

Indices	Criteria	Result
χ^2	-	0.32
df	-	1
p	>0.05	0.572
CMIN/DF	<3	0.32
CFI	> 0.92	1.00
RMSEA	<0.08	0.000
SRMR	<0.9	0.007

Results of the model assessment show a very high fit with χ^2 of 0.31 (which is closer to 0 deviation between the observed and estimated covariance matrices), p-value of 0.57(that

is significantly greater than 0.05), CIF value of 1.00 (which is the highest extreme value), SRMR of 0.007 (lower than the ideal 0.05 cutoff point) and RMSEA value of 0.000 (which perfectly meets the minimum extreme value with probability of 66%). The composite measures are also examined in terms of construct validity criteria. The factor loadings, the first criterion, of CUSTOR, COMPOR, and INTCORD are 0.88, 0.79, and 0.87 respectively which are higher than the ideal 0.7 cutoff point. Percentage of variance extracted, the second criterion, is 72.26%, which is higher than the 50% cutoff point. Table 5.18e presented the construct validity results.

Table 5.18e Construct Validity of Market Orientation Measures

Construct	Factor Loadings	% of Variance Extracted
CUSTOR	0.88	72.26
COMPOR	0.79	
INTCORD	0.87	

Therefore, both the model fit indices and construct validity results show that the model with composite measures is the most appropriate one for further analysis.

2. CFA of Innovation Construct

Innovation is the second strategic orientation which is hypothesized as one of the determinants of a firm's competitive advantage. The innovation scale consists of 8 indicators and this section discussed CFA of innovation measures. The path diagram that

shows the relationship between innovation and its indicators (Figure 5.5a) and model assessment results (Table 5.19a) are presented as follows.

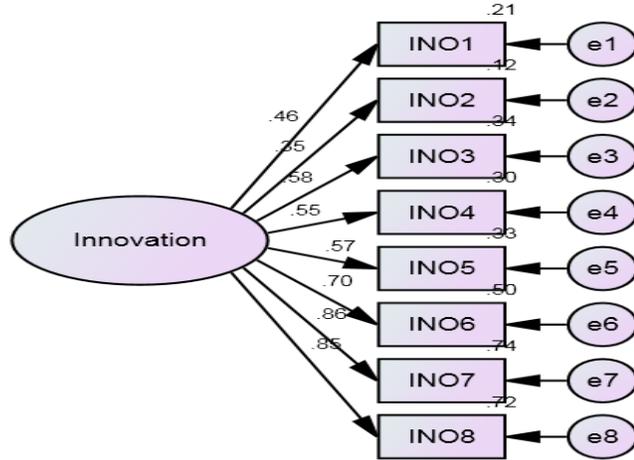


Figure 5.5a Measurement Model of Innovation

Table 5.19a Measurement Model of Innovation

Indices	Criteria	Result
χ^2	-	127.43
df	-	20
p	>0.05	0.000
CMIN/DF	<3	6.37
CFI	> 0.92	0.83
RMSEA	<0.08	0.163
SRMR	<0.9	0.100

Factor loadings of INO1 and INO2 (i.e., 0.46 and 0.35 respectively) do not satisfy the minimum regression weight of 0.5; regression weights of INO3, INO4 and INO 5 are between 0.55 and 0.60 in which regression weights are above the minimum 0.5 standard and below the ideal 0.7 cutoff point; and INO6, INO7, and INO8 have factor loadings of 0.7 and above (i.e., the ideal regression weight). As reported in Table 5.19a all the model

fit indices do not support a good model fit. Appendix 6.4 presented results of model fit indices.

Assessment of model fit results indicate that INO2 has lower regression weight (0.35); its error term (e2) show significant covariations with e3, e4, e5, and e8; and the INO2 shows larger residual covariance with INO1 (4.07) and with INO3 (3.87). Hence, it is decided to delete INO 2. Although the results (after deleting INO 2) show improvement, the model doesn't still show a good fit.

The second model fitting attempt found that e4 (of INO4) show significant covaration with e3 (of IMO3). In addition, the residual covariances of INO 4 with INO3 (3.65) and INO1 (2.30) are greater than the 1.96 suggested cutoff point. Therefore, it is also decided to delete INO 4. Fit indices and path diagram of the final model are described as follows.

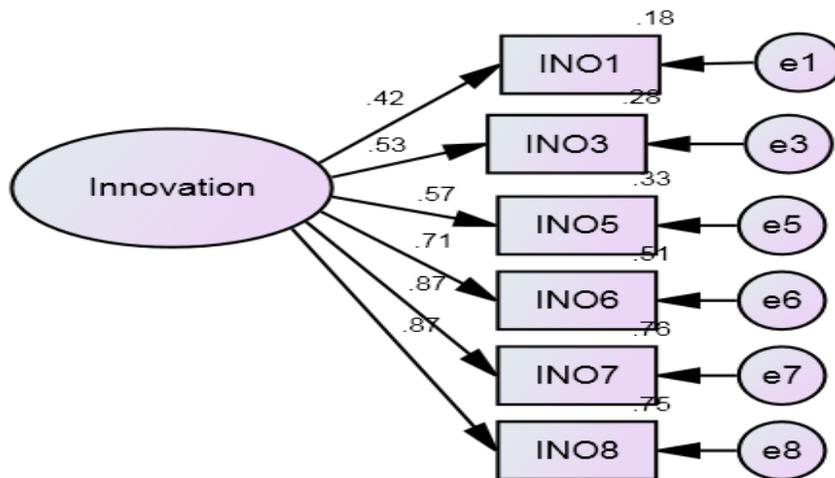


Figure 5.5b Measurement Model of Innovation

Table 5.19b Measurement Model of Innovation

Indices	Criteria	Result
χ^2	-	21.07
df	-	9
p	>0.05	0.012
CMIN/DF	<3	2.34
CFI	> 0.92	0.97
RMSEA	<0.08	0.081
SRMR	<0.9	0.045

The factor loadings of all factors, except INO1, are above 0.5. Goodness-of-fit indices also reported good model fit with CFI of 0.97(greater than the ideal point of 0.95), RAMSE of 0.081 (meets the recommended cutoff point but higher than the ideal standard of 0.05), and SRMR of 0.045(below the ideal minimum value of 0.05).

Finally, the convergent validity and discriminant validity of innovation indicators are examined and reported in Table 5.19c.

Table 5.19c Construct Validity of Innovation Measures

Construct	Item	Factor Loadings	% Variance Extracted
Innovation	INO1	0.42	47.00
	INO3	0.53	
	INO5	0.57	
	INO6	0.71	
	INO7	0.87	
	INO8	0.87	

The path estimates of all factors except INO1 are above 0.5. The percentage of variance extracted is below the recommended 50% because of the lower regression weight of INO1. Without INO1, the percentage of variance extracted is 52.50. It is decided to retain INO1 because of its importance in the upcoming analysis. Therefore, it is concluded that the measures fulfill convergent validity criteria. In the model assessment process, cross loadings among measures are also checked. As a result, measures of innovation indicated in Figure 5.5b also satisfy the Discriminant validity criteria.

5.5.3.3. CFA of Marketing Capabilities Measures

Marketing capabilities are defined in terms of the firm's ability to design marketing program (which consists of product, price, promotion, and distribution) and marketing strategy (Morgan & Vorhies, 2009). Accordingly, the study examined CFA of product, price, place, promotion and marketing strategy formulation practices. The process takes two levels of confirmatory factor analysis: the first level is to assess how each exogenous latent construct loads on the observed indicators and how the five constructs correlate with each other; the second level is to examine how a second order construct (i.e., marketing capabilities) load on the first order constructs (such as product, price, promotion, place, and marketing strategy). Assessment results of the first model and modified models are presented and discussed as follows.

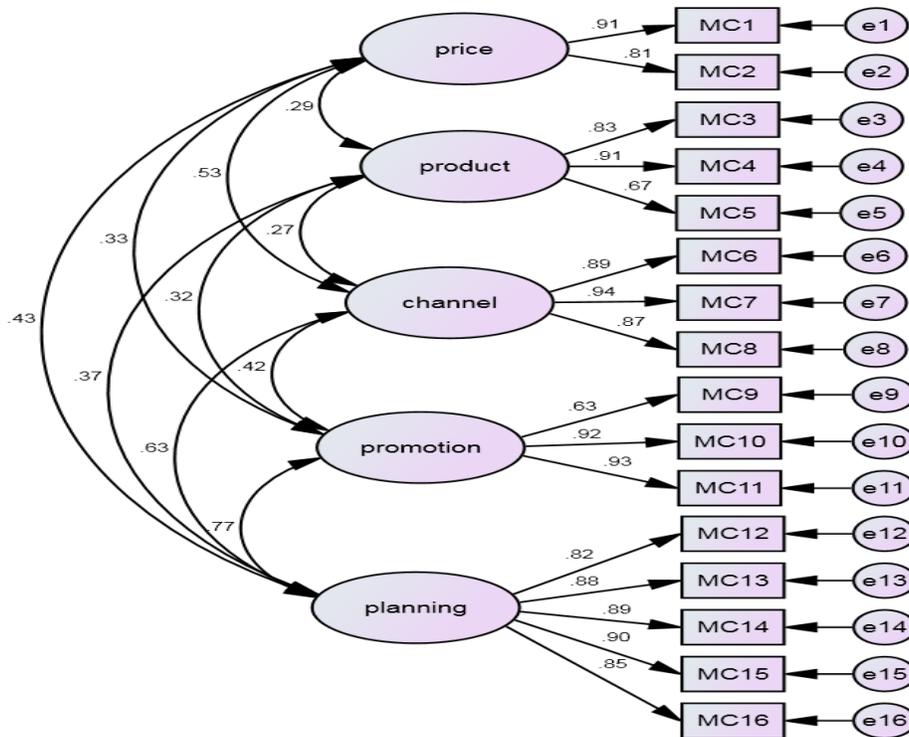


Figure 5.6a Measurement Model of Marketing Capabilities

Table 5.20a Measurement Model of Marketing Capabilities

Indices	Criteria	Result
χ^2	-	198
df	-	94
p	>0.05	0.000
CMIN/DF	<3	2.10
CFI	> 0.92	0.96
RMSEA	<0.08	0.074
SRMR	<0.9	0.054

The regression weights of five items, namely MC1, MC4, MC10, MC11, and MC7 are above 0.9; regression weights of MC2, MC3, MC6, MC8, MC12, MC13, MC14, MC15, and MC16 are between 0.81 and 0.89; and regression weights of MC9 and MC5 are 0.62 and 0.67 respectively. This shows that most factor loadings are higher than the ideal 0.7

cutoff point and two of the loadings (MC9 and MC5) are above the minimum 0.5 standard.

The planning construct shows strong correlation with promotion (0.77) and channel (0.62) and show moderate correlation with price (0.42) and product (0.38). The correlation between marketing mix elements range from low to moderate. Lower correlations (i.e., < 0.3) are observed between product and channel (0.26) and product and price (0.28). The correlations between promotion and other marketing mix elements such as product (0.32), price (0.32), and channel (0.41) are marginal. Finally, the correlation between price and channel (0.53) is moderately high.

Appendix 6.5 presented results of model fit indices. The model fit indices indicated acceptable fit with CMIN/DF of 2.10 (lower than 3.0), CFI of 0.96 (higher than 0.95 ideal cut off point), RMSEA of 0.074 (below 0.08 standard), and SRMR of 0.054 (closer to the ideal minimum point of 0.05). The suggested modification indices are not feasible for further improvement and, therefore, the model is accepted for further analysis with no modification.

Because of very high factor loadings of exogenous constructs on indicator variables, it is feasible to create summated scale in order to reduce analysis and interpretation complexities (Hair et al, 2010). As recommended by many authors, the average of every exogenous latent construct indicators is taken. Hence, the second order construct, marketing capabilities, is measured in terms of 5 indicators such as AMC1 (Price), AMC2 (Product), AMC3 (Channel), AMC4 (Promotion), and AMC 5 (Planning). The path diagram and the model assessment results are presented and discussed as follows.

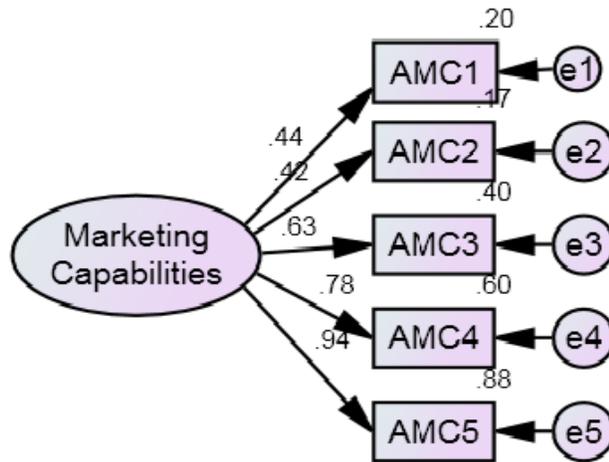


Figure 5.6b Measurement Model of Marketing Capabilities (Composite Measures)

Table 5.20b Measurement Model of Marketing Capabilities (Composite Measures)

Indices	Criteria	Result
χ^2	-	22.36
df	-	5
p	>0.05	0.000
CMIN/DF	<3	4.47
CFI	> 0.92	0.95
RMSEA	<0.08	0.131
SRMR	<0.9	0.056

Marketing capabilities loaded highly on AMC 3(0.63), AMC4 (0.78), and AMC 5 (0.94). On the other hand, factor loadings of AMC 1 (0.44) and AMC 2 (0.42) are slightly higher than the suggested minimum value of 0.3.

The model fit indices presented mixed results. The CMIN/DF is 4.47 (higher than the suggested 3.0), CFI is 0.95 (higher than the 0.9 minimum point), SRMR is 0.056 (slightly above the 0.05), and RMSEA is 0.13 (higher than the maximum 0.08 value). Hence, it is decided to modify the model.

Marketing capabilities construct marginally loaded on AMC1 and AMC2. In addition, AMC1 show high residual covariance (2.51) with AMC2. In the first analysis, the correlations between price and product (0.29) and price and promotion (0.33) are not strong. In addition, the modification indices of the second order analyses indicated that AMC1 loaded on AMC3. The loading result (0.203) is near to 50% of its loading on marketing capabilities. Hence, it is decided to delete AMC1. The results are presented and discussed as follows in Figure 5.6c and Table 5.20c.

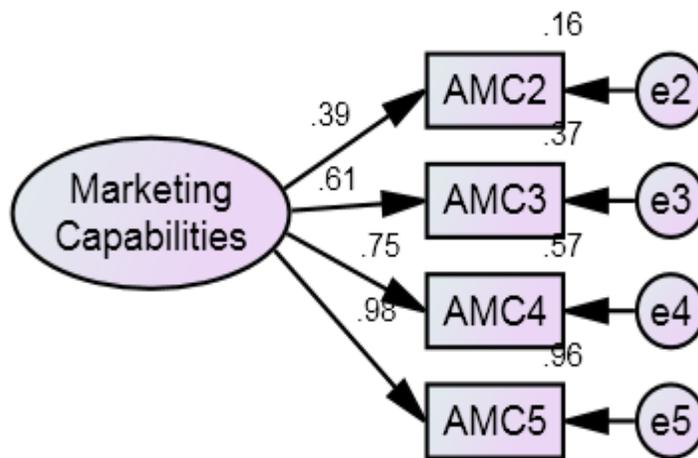


Figure 5.6c Measurement Model of Marketing Capabilities (Composite Measures)

Table 5.20c Measurement Model of Marketing Capabilities (Composite Measures)

Indices	Criteria	Result
χ^2	-	1.34
df	-	2
p	>0.05	0.513
CMIN/DF	<3	0.67
CFI	> 0.92	0.95
RMSEA	<0.08	0.000
SRMR	<0.9	0.015

The factor loadings of AMC2, AMC3, AMC4, and AMC5 are 0.39, 0.61, 0.75 and 0.98 respectively. Results of the model fit indices are near to perfect with very low χ^2 value of 1.33, p-value of 0.513 (significantly higher than 0.05), CFI of 1.00 (the maximum value of CFI index), RMSEA of 0.00 (the extreme minimum RMSEA value with PCLOSE of 0.66) and SRMR of 0.015 (significantly lower than the ideal 0.05 cutoff point).

Construct validity of the model is also tested using the factor loadings and percentage of variance extracted criteria. Table 5.20d presents results of convergent and discriminant analysis.

Table 5.20d Construct Validity of Marketing Capabilities Measures

Item	Factor Loadings	% of Variance Extracted
AMC2	0.39	51.10
AMC3	0.61	
AMC4	0.75	
AMC5	0.98	

The factor loading of 0.39 is marginal but retained to maintain the theoretical completeness of the model. The factor loadings of other constructs are significantly higher than the suggested minimum of 0.5. In addition, the percentage of variance extracted (51.10) exceeded the 50% minimum. Hence, the model also fulfilled construct validity criteria and is taken as legible for further analysis.

5.5.3.4. CFA of Competitiveness

Competitiveness is a performance construct that contains four indicator variables. In the conceptual model, competitiveness is defined as the performance of organizations to enter new market, increase market share, increase return on investment, and increase in productivity. The factorial structure validity of these indicator variables are assessed and presented as follows.

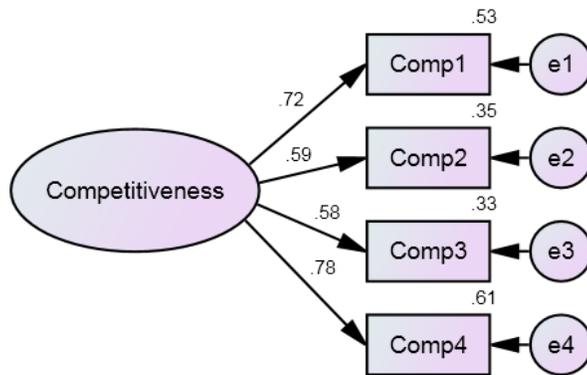


Figure 5.7 Measurement Model of Competitiveness Indicators

Table 5.21 Measurement Model of Competitiveness Indicators

Indices	Criteria	Result
χ^2	-	1.34
df	-	2
p	>0.05	0.513
CMIN/DF	<3	0.67
CFI	> 0.92	0.95
RMSEA	<0.08	0.000
SRMR	<0.9	0.015

The regression weights of Comp 1, Comp 2, Comp 3, and Comp 4 are 0.72, 0.59, 0.58 and 0.78 respectively. Although all the factor loadings satisfy the minimum 0.5 standard, only Comp 1 and Comp 4 are above the ideal point of 0.7.

Appendix 6.6 presented results of the model fit indices. The model fit criteria show poor model fit because χ^2 is 34.10 with p-value of 0.00 and 2 degrees of freedom. Other indices also show poor result such as CMIN/DF of 17.05 (higher than 3.0 standard), CFI of 0.86 (lower than 0.90), SRMR value of 0.081 (meets the standard but higher than the ideal point of 0.05), and RMSEA of 0.28 (higher than 0.08 standard). Hence, it is decided to modify the model.

Modification indices suggested to correlate e2 (Comp 2) with e3 (Comp 3); to add regression line that causally link Comp 2 with Comp 3 (with suggested change on χ^2 value of 17.27); or Comp 3 with Comp 2 (with suggested change of 16.75). Since Comp 2 (increase in market share) and Comp 3 (increase return on investment) are separate competitiveness objectives, freeing these variables does not make sense from practical and theoretical perspectives. Therefore, all the factors are retained for analysis in the next general SEM model.

5.5.4. Analysis of the Causal Model

In section 4.3.3, the relationships between the observed variables and exogenous latent variables are examined. The aim is to determine the factorial validity of measures before using them in the analysis of causal relationships between constructs.

This section presents analysis of the hypothesized causal relationships between the independent and dependent variables. Therefore, causal relationships between latent constructs are examined and the hypotheses developed based on literature are empirically tested using the complete SEM model. The full SEM model consists of 32 observed (measured) variables, five exogenous latent constructs (hierarchy culture, adhocracy culture, market culture, reward system, and employee training), and four endogenous latent constructs (innovativeness, marketing capabilities, market orientation, and competitiveness).

As mentioned earlier the relationships depicted in the causal model are developed based on arguments in the extant literature. As far as the relationship between marketing capabilities and market orientation is concerned, the widely acknowledged relationship is that understanding the marketplace is the base to develop marketing program (Kotler & Armstrong, 2012). The alternative view of market orientation-marketing capabilities relationships is that the exercise of each capability generates new market insights which again contribute for the development of market orientation (Morgan et al, 2009; Day, 2011). Day (2011) further indicated that the two constructs have reciprocal relationships. Hence, in order to examine the validity of the alternative view (i.e. marketing capabilities positively affect the development of market orientation), the study develops a separate model and comparison of models is carried out.

Accordingly, to test all the hypothesized relationships, the general SEM model (Figure 5.8a) is developed based on the view that market orientation is the base to develop

marketing programs. In addition, Model 2 is developed to examine how the exercise of marketing capabilities influences market orientation.

A. Causal SEM Model (Market Orientation/MO/ as Antecedent to Marketing Capabilities/MC/)

Figure 5.8a presented the first complete SEM hypothesized model that shows relationships between indicators and exogenous latent variables; and latent exogenous variables and dependent variables. Corresponding to this, Table 5.22a presented results of model fit indices. The detailed AMOS results are presented in Appendix 7.1

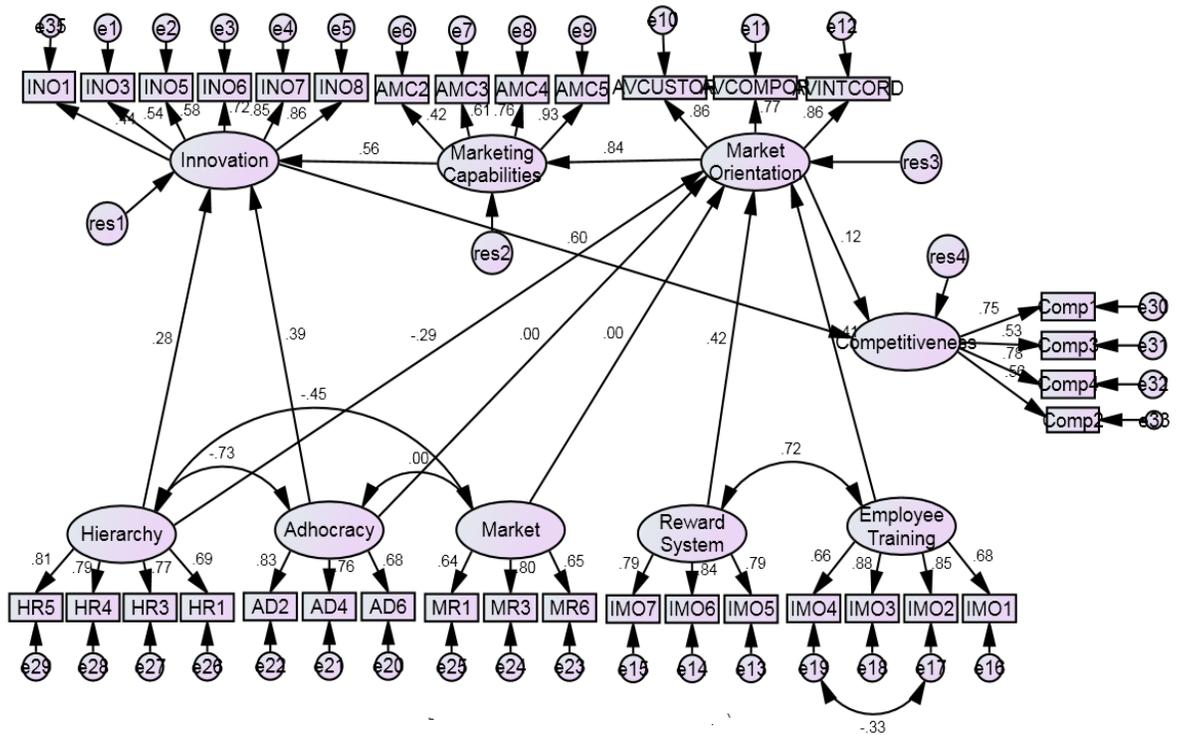


Figure 5.8a The Causal SEM Model (Model 1)

Table 5.22a The Causal SEM Model (Model 1)

Indices	Criteria	Result
χ^2	-	994.90
df	-	511
p	>0.05	0.000
CMIN/DF	<3	1.95
CFI	> 0.92	0.87
RMSEA	<0.08	0.068
SRMR	<0.9	0.101

The first iteration of the complete SEM model (Model 1) did not show good model fit results. But the results are reasonable given the model complexity and the marginal fit results of indices such as CMIN/DF (1.95 is below 2.0 which is the ideal recommended cutoff point), RMSEA (0.068 is below 0.08); and the SRMR value (0.101) is marginal. The χ^2 result (994.90) is not significant since p-value is less than 0.05; and the CFI (0.87) is below the suggested 0.9 boundary. Therefore, it is decided to search for best fitting model via post hoc analysis.

The second iteration examined suggested modification indices, standardized residual weights, and statistical estimates. Based on this, model fitting actions are taken based on ‘one at a time’ principle of the AMOS program. In doing so, the necessary care has been taken not to violate the requirements of underlying theories.

The first alternative to improve the model fit is reexamining the competitiveness indicators. The CFA results in section 4.4.3.4 indicated that factor loadings of Comp2 and Comp3 are below 0.5. Similarly, the modification indices of the present model also suggested a significant covariation of error terms of the two indicators. Finally, indicators

of other constructs in the model are cross-loaded significantly on competitiveness indicators. As a result, it is decided to remove the two indicators.

The second feasible modification possibility suggested by the AMOS program is the covariance between reward system and hierarchy culture. Literature confirmed the link between organizational architecture and reward systems of organizations. Lawler (1993) stated that reward systems should fit with the rest of the systems in the organization; James (2000) argue that ethical behavior of managers in their compensation practices are affected by formal organizational structure; and according to Schuster and Kesler (2011), reward system should be aligned with the organizational design. Therefore, the covariance between reward system and hierarchy culture has theoretical and practical support.

The third significant improvement is made by treating the covariance between error terms of INO1 (e36) with AMC2 (e6). The suggestion is considered as valid because INO1 asked respondents to evaluate the number of innovative products and services introduced by their respective companies against the competitors; and AMC2 is about organizations' ability to develop new products, launching it successfully, and the extent to which the newly introduced products satisfy customer requirements. Hence, it is safe to assume that respondents would interpret the two questions in similar manner because the questions are conceptually related. Therefore, the two error terms are allowed to covary with each other.

The fourth modification is deleting the covariance between adhocracy and market culture. Figure 5.8a depicted that covariance between adhocracy and market is 0.006 (with p-

value of 0.94). The result is closer to zero which signify that there is no covariation between the two cultural types. Therefore, the covariance line is deleted.

The fifth issue is the impact of hierarchy culture on market orientation. Hierarchy culture significantly affects marketing capabilities construct in a scenario where marketing capabilities influence market orientation (see Figure 5.8d). Therefore, regression line that shows the effect of hierarchy culture on marketing capabilities is added. On the other hand, the effect of hierarchy culture on market orientation is not significant in all scenarios. Hence, the regression line between hierarchy culture and market orientation is deleted.

The final modification option is correlating error terms of IMO6 and IMO7. Companies in Ethiopia do not have flexible reward system that is used to recognize individuals extra efforts such as managers' effort to enhance customer satisfaction (IMO6) and employees' effort to generate and disseminate market intelligence (IMO7). As a result, respondents might treat the two questions in the same way. Therefore, correlating the error terms of IMO6 and IMO7 is justifiable.

Figure 5.8b presents the modified causal SEM model and the model fit results are reported in Table 5.22b

Table 5.22b The Causal SEM Model (Model 2)

Indices	Criteria	Result
χ^2	-	705.23
df	-	446
p	>0.05	0.000
CMIN/DF	<3	1.58
CFI	> 0.92	0.93
RMSEA	<0.08	0.054
SRMR	<0.9	0.086

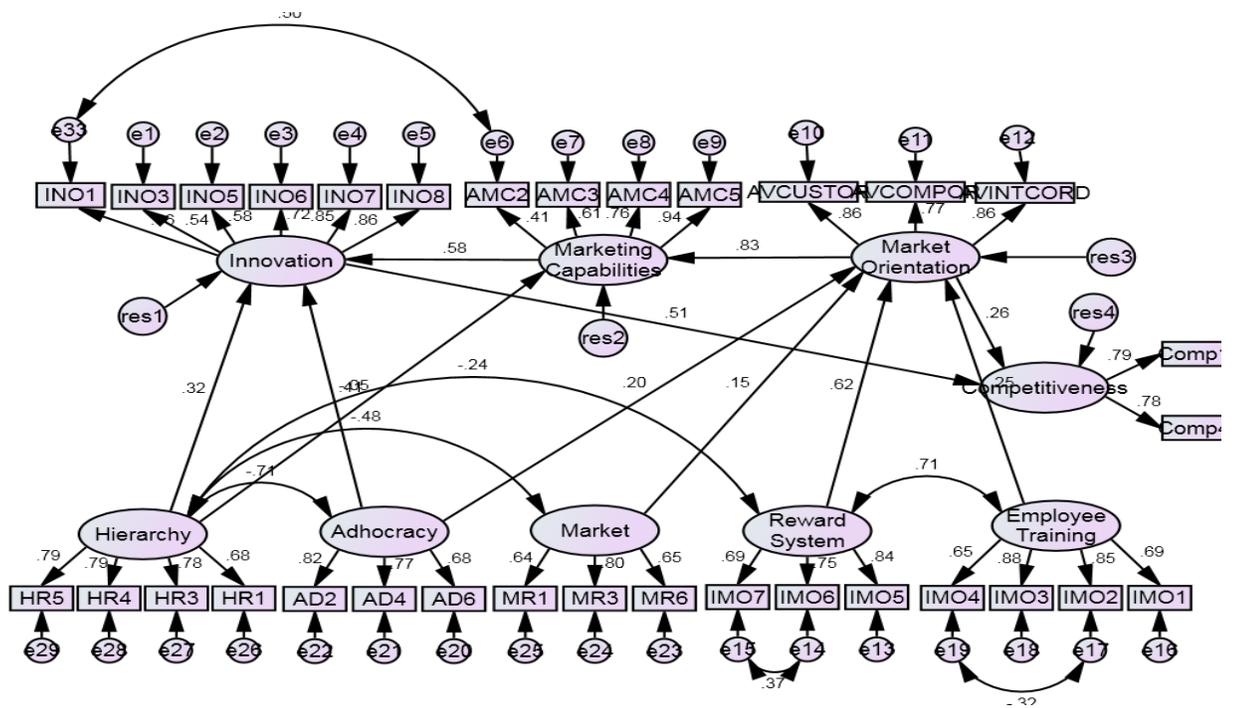


Figure 5.8b The causal Model (Model 2)

Model 2 exhibited acceptable model fit results in all indices except χ^2 . The χ^2 reduced from 994.90 to 705.23 with 446 degree of freedom and p-value of 0.000; CMIN/DF significantly reduced from 1.95 to 1.58 (the result is below the ideal 2.0 cutoff point), value of CFI increased from 0.87 to 0.93; RMSEA reduced from 0.068 to 0.054 (with PCLOSE value of 0.22; population RMSEA is between 0.048 and 0.063 with 90%

confidence interval); and SRMR reduced from 0.101 to 0.086 (which is below 0.09 standard cutoff point). Except the χ^2 value, all other indices reported acceptable fit. In addition, the modifications suggested by AMOS are not valid. Hence, this model is considered the final well fitted model which is used as the base to test hypotheses.

B. Causal SEM Model (MC as Antecedent to MO)

Figure 5.8c shows the reciprocal effect of marketing capabilities on market orientation. This is based on the view that while planning and executing the marketing program, organizations can gain insights into worthwhile alternatives to satisfy customers better than competitors (Day, 2011). Therefore, marketing capabilities are modeled here as antecedents to market orientation.

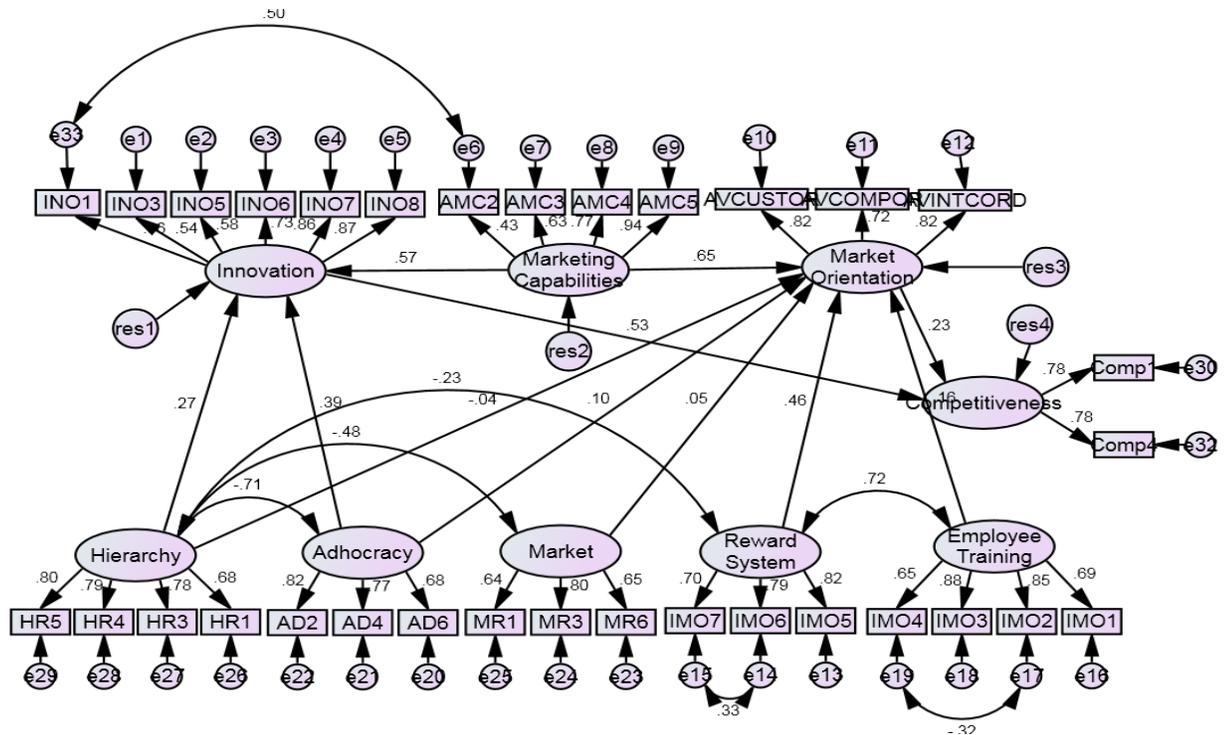


Figure 5.8c The Causal Model (MC-MO) Model

Figure 5.8c indicated that marketing capabilities significantly affects market orientation (t-value is 6.02 significant at p-value of 0.0001 and standardized regression weight or effect size is 0.65). By discovering the model further, the following results are obtained.

First, the hierarchy culture affects marketing capabilities more than market orientation. This indicates that the design and architecture of an organization has direct impact on organizational practices (planning and implementations of marketing programs) than the philosophy that an organization is following while doing the marketing program (market orientation).

Second, the impact of marketing capabilities on market orientation becomes stronger when organizational factors such as reward system and employees training are modeled as antecedents to marketing capabilities rather than market orientation. Figure 5.8b shows that the impact of reward system and employee training on marketing capabilities is significantly high via market orientation. In other words, the effect of market orientation on marketing capabilities is stronger because of the antecedent factors. Similarly, these organizational factors highly affect market orientation via marketing capabilities. This implies that upgrading employees understanding of the marketplace and equipping them with skills of serving customers through training together with a reward system designed in line with employees' marketplace performance are significant determinants to develop the philosophy (market orientation) and the capabilities (i.e., marketing capabilities) to implement.

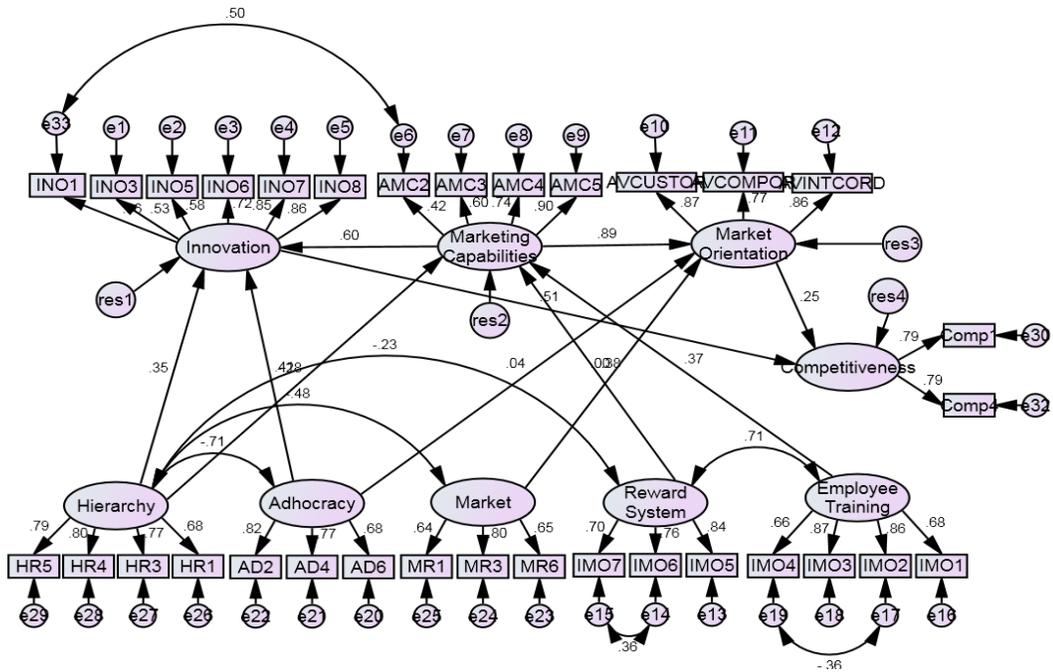


Figure 5.8d The Causal SEM Model (MC-MO)

The impact of marketing capabilities on market orientation is high in this model (t-value is 6.31 significant at p-value of 0.0001 and standardized regression weight or effect size is 0.89). Hence, the effect of marketing capabilities on market orientation is stronger because of antecedent organizational factors such as hierarchy culture, employee training, and reward system. The effect of marketing capabilities on market orientation is even slightly stronger (0.89) than the effect of market orientation on marketing capabilities (0.83). Appendix 7.2 presents results of model fit indices.

5.5.5. Analysis of Moderating Factors

The final well fitted SEM model show positive and significant impact of market orientation and innovation on competitiveness. To further explain the association between strategic orientations and performance, the study examined whether two contextual

factors (company age and company size) alter the level of impact of market orientation and innovation on competitiveness.

In order to test the effect of these control variables, multiple group analysis tool of the AMOS program is applied. The goal of multiple group analysis (or invariance analysis) is to determine if the same SEM model is applicable across groups based on age and size.

The analysis consists of the following stages.

Firstly, dividing the data into subsamples based on company age and company size. The study used the median value to form subgroups. Hence, the median age of companies is 19 and the cutoff point that corresponds to this age is 101st case; and the median group in terms of size is the second group (i.e., companies with a number of employees between 100 and 499). Hence, the first age group (age below 19) has 101 cases (n=101) and the second group has 103 cases (n=103). In terms of size, 102 companies (n=100) have more than 500 employees and the remaining 102 companies (n=104) have employees less than 500.

Secondly, a baseline model is developed through post hoc model fitting process. This is the model against which all alternative models parameters (measurement weights, structural covariances and measurement residuals) are compared (Byrne, 2010). Hence, two baseline models (one for company age groups and one for groups based on size) are developed.

Thirdly, equality constrained model is developed to test invariance among groups. Hence, equality constraints are imposed on the regression weights, structural covariances, and

residuals. Then, the model assessment values (χ^2 , CFI, and RMSEA values) of the regression weights, variances, and residuals are compared against the values of the baseline model to explain how variations in age and size influence the impact of strategic orientations on firm performance (Byrne, 2010:221).

Fourthly, the analysis examined invariance using model assessment techniques of χ^2 , CFI and RMSEA. These techniques have been used in many market orientation and innovation studies (Dursun-Killk, 2005).

The model fitting results of how age and size alter the impact of strategic orientations on performance are presented and discussed as follows.

Table 5.23a Multi-group Analysis: Company Age

Models	χ^2	$\Delta\chi^2$	df	Δ df	CFI	RMSEA
Baseline Model	683.89	-	479	-	0.93	0.046
Measurement Weights	706.59	21.7	495	16	0.93	0.046
Structural Covariences	706.59	44.8	501	23	0.92	0.046
Measurement Residuals	706.59	89.6	526	48	0.91	0.046

Results show that there is significant difference between the baseline model ($\chi^2=683.89$; DF=479) and the measurement weights ($\chi^2=706.59$; DF=495) with chi-square and degree of freedom differences of 21.7 and 16 respectively. The effects of market orientation on competitiveness of younger companies (C.R = 2.69; p-value= 0.007; factor loadings of 0.31) is stronger than its effect on older companies (C.R. =1.98; P-value=0.047; and factor loadings 0.22). Similarly, the effect of innovation on younger companies'

competitiveness (C.R. =3.67; P-value=0.001; and factor loadings 0.62) is stronger than older companies (C.R. =3.18; P-value=0.01; and factor loadings of 0.44).

Table 5.23b Multi-group Analysis: Company Size

Models	χ^2	$\Delta\chi^2$	df	Δ df	CFI	RMSEA
Baseline Model	866.64	-	616	-	0.92	0.045
Measurement Weights	897.68	31.0	635	19	0.91	0.045
Structural Covarieances	915.35	48.7	642	26	0.91	0.046
Measurement Residuals	954.25	87.6	672	56	0.91	0.046

Results show that there is significant difference between the baseline model ($\chi^2=866.64$; DF=616) and the measurement weights ($\chi^2=897.68$; DF=635) with chi-square and degree of freedom differences of 31.0 and 19 respectively. The effects of market orientation on competitiveness for larger companies (C.R. =3.55; p-value=0.001; and factor loadings of 0.33) is significant and strong. Similarly, for innovation (with C.R. =4.56; p-value=0.0001; and factor loadings of 0.60) the effect is positive and very strong for larger companies. On the other hand, the effect of market orientation on competitiveness is not significant (C.R. =-0.016; p-value=0.987; and factor loadings of -0.002) for smaller companies. The effect of innovation (C.R. =-3.15; p-value=0.002; and factor loadings of 0.60) on smaller firms competitiveness is positive and strong.

5.5.6. Hypotheses Testing

In this section, proposed relationships in Figure 5.1 are tested by following the hypotheses testing procedure of similar studies such as Jaworski and Kohli (1993); Narver and Slater, (1990); Matsuno (1996); and Dursun-Kilic (2005). Accordingly, the statistical methods

used to explain relationships are regression coefficient, t-statistics, and the standardized regression coefficient. Table 5.24 summarizes results of statistical techniques. Detailed AMOS results are presented in Appendices 7.1 and 7.2.

Table 5.24 Summary of Statistical Tests

Se. No	Relationship Tested	C.R	St. Estimate	P-value	Remark
1	Market Orientation<---Employee Training	2.76	0.25	**	MO-MC Model•
2	Market Orientation<---Reward System	6.20	0.62	***	“
3	Market Orientation<---Market	2.66	0.15	**	“
4	Market Orientation<---Adhocracy	3.49	0.20	***	“
5	Marketing Capabilities <---Market Orientation	6.08	0.83	***	“
6	Market Orientation<--- Marketing Capabilities	6.31	0.90	***	MC-MO Model♦♦
7	Market Orientation<---Hierarchy	-2.67	-0.36	**	“
8	Marketing Capabilities <---Hierarchy	-3.63	-0.28	***	“
9	Marketing Capabilities<---Reward System	3.19	0.38	**	“
10	Marketing Capabilities <---Employee Training	3.30	0.37	***	“
11	Innovation<---Marketing Capabilities	4.56	0.60	***	“
12	Innovation<---Hierarchy	2.93	0.37	**	“
13	Competitiveness<---Market Orientation	3.18	0.26	**	MO-MC Model
14	Innovation<---Adhocracy	3.35	0.41	***	“
15	Competitiveness<---Innovation	4.83	0.51	***	“

- *Market orientation is modeled as antecedent to marketing capabilities (Figure 5.8b)*
- ♦♦ *Marketing capabilities are modeled as antecedents to market orientation (Figure 5.8d)*
- ** *Significant at 0.01 level*
- *** *Significant at 0.001 level*

5.5.6.1. Effects of Antecedent factors

The study hypothesized that factors within an organization such as type of organizational culture, employee training, and reward system affect the development of strategic orientations – market and innovation orientations (Deshpande & Farley, 2003; Jaworski & Kohli, 1993). Accordingly, the effect of the four types of organizational culture (clan, adhocracy, market, and hierarchy), top management emphasis, reward system, and employee training on market orientation and marketing capabilities; and the influence of adhocracy and hierarchy cultures on innovation are examined. Of these factors, clan culture and top management emphasis are removed at the confirmatory factor analysis stage because of poor factorial validity and reliability results. Hence, only constructs validated in the model fitting process are included here.

A. Organizational Factors and Market Orientation

Research Question 1: Do internal factors affect organizations' level of market orientation?

H1a: Employee training that focuses on intelligence generation and dissemination, customer services, and marketplace conditions affect market orientation positively and significantly.

H1b: Reward systems designed based on market factors positively affects the development of market orientation.

H1c: Organizations with higher emphasis on competitive advantage and market superiority (market culture) are highly committed to develop market orientation.

H1d: Adhocracy type of culture (i.e., culture that emphasizes entrepreneurship, innovation, and risk taking) affects market orientation positively and significantly.

H1e: Hierarchy type of culture (i.e., culture that emphasizes rules and order) affects market orientation negatively and significantly.

Table 5.25a reported the statistical explanation of the aforementioned relationships in terms of regression coefficient (estimates), the t-value, standardized estimates, and the level of significance (p-value).

Table 5.25a Effect of Organizational Factors on Market Orientation

	Estimate	C.R.	St. Estimates	p-value
Market Orientation ← Employee Training	0.24	2.76	0.25	0.006
Market Orientation ← Reward System	0.45	6.20	0.62	***
Market Orientation ← Market	0.15	2.66	0.15	0.008**
Market Orientation ← Adhocracy	0.17	3.49	0.20	***
Market Orientation ← Hierarchy	-0.30	-2.47	-0.36	0.013*

* $p < 0.05$
 ** $p < 0.01$
 *** $p < 0.001$

Hypothesis 1a is supported with t-value of 2.76, significant at the level of 0.05, and with moderately strong impact of employee training on market orientation (0.25). It means the role of upgrading employees' marketplace knowledge and skills through training has a positive impact in terms of accomplishing the tasks of understanding and fulfilling customer needs, tracking competitors' moves, and creating market oriented organizational architecture (Ellinger, Ellinger, Musgrove, Bachrach & Bas, 2013).

Hypothesis 1b is supported with t-value of 6.20, significant at the level of 0.001, and strong effect of reward system on the development of market orientation (0.62). It means organizations which align their reward system to customer satisfaction and long-term success (rather than to short term goals such as immediate sales volume) can achieve higher level of market orientation. The finding is consistent with the work of (Jaworski & Kohli, 1993; Jenster & Jaworski, 2000). As Jaworski and Kohli (1993) pointed out strong reward system has the power to facilitate employees and management understanding of the marketplace through generation and utilization of intelligence about customers and competitors.

Hypothesis 1c is supported with t-value of 2.66, significant at the level of 0.05, and the effect of market culture on market orientation is moderately strong (0.15). This means the more organizations are focusing on competitive advantage and market superiority, the more they would engage themselves to understand customer needs, understand competitor situations and integrate functional departments toward creating superior customer values (Gounaris, 2008; Deshpande & Farley, 2003).

Hypothesis 1d is supported with t-value of 3.49, significant at the level of 0.001, and with moderately strong effect of adhocracy on market orientation. This means organizational culture that encourage members to seek innovative ways of serving customers, to take risk, to develop change orientation, to embrace flexibility and to be dynamic would have higher customer orientation, competitor orientation, and good inter-functional connectedness. This is consistent with the view that market culture fosters understanding

of marketplace situations and induces management to tailor internal arrangements and practices accordingly (Slater & Narver, 1995).

Hypothesis 1e is supported because the impact of hierarchy culture on the development of market orientation is statistically significant with t-value and p-values of -2.47 and 0.013 respectively. The effect size (-0.27) is moderately strong and the direction of influence is negative which suggest that bureaucratic organizations would have little emphasis on external factors such as customer needs and competitors actions because of the very high concern for maintaining rules, regulations, conformity, and stability (Gounaris, 2008).

B. Organizational Factors and Innovation

Research Question 2: How do cultural archetypes affect organizations' level of innovation?

H2a: Organizations that put greater values for innovation, risk taking and entrepreneurship (adhocracy culture) have the ability to bring about changes on their products, process and administrative platforms.

H2b: Organizations which emphasizes rules, regulations, and conformity (Hierarchy Culture) have lower level of product, process, and administrative innovations.

The statistical test results are presented in Table 5.22b.

Table 5.25b Effect of Organizational Factors on Innovation

	Estimate	C.R.	St. Estimates	p-value
Innovation ← Adhocracy	0.24	3.35	0.41	***
Innovation ← Hierarchy	0.20	2.93	0.37	0.003**

** $p < 0.01$
*** $p < 0.001$

Hypothesis 2a is supported with t-value of 3.35, significant at the level of 0.001, and the effect of adhocracy culture on innovativeness is stronger (0.41). This implies that organizations that value entrepreneurship, dynamism, and risk taking would develop high level of innovativeness.

Hypothesis 2b is not supported and the result is opposite to the widely recognized view that hierarchy culture inhibits innovation. Here, the statistical results support the positive impact of hierarchy on level of innovation with t-value of 2.93, significant at the level of 0.01, and with moderately strong effect (0.37). It has been recognized in the literature that because of its focus on internal administrative matters (structure, policies, rules, and regulations), it ignores and sometimes block the introduction of significant changes in product, production process, and management system (Deshpande, Farley, & Webster 1993; Jaworski & Kohli 1993).

C. Organizational Factors and Marketing Capabilities

Research Question 3: How do organizational factors affect organizations' capabilities to develop and implement marketing strategies and programs?

The conceptual model in Figure 5.1 indicated that marketing capabilities and market orientation constructs have reciprocal relationships. The conceptual model also depicts the hypothesized effect of organizational factors on market orientation and marketing capabilities. However, from several iterations of the full SEM, it is found that the position of the two constructs (dependent or independent position) influence the level of impact of organizational factors on each construct. The effects of organizational factors on marketing capabilities are not statistically significant in a model in which market orientation is independent and marketing capabilities is dependent variables (see Appendix 7.1). On the other hand, when marketing capabilities construct is modeled as determinant of market orientation and all organizational factors are allowed to influence only marketing capabilities, the impact of marketing capabilities on market orientation is very strong and the influence of three organizational factors (reward system, employee training, and hierarchy culture) on marketing capabilities is statistically significant (see Appendix 7.2). The following hypotheses are developed based on the assumption that marketing capabilities are determinants of market orientation.

H3a: Employee training programs on customer service, intelligence generation and utilization, and customer awareness positively affects organizations' marketing capabilities.

H3b: Reward system designed based on marketplace factors (performance of employees and management in serving customer needs and tracking competitors' actions) positively affects marketing capabilities.

H3c: Bureaucratic organizations which emphasize rules, regulations, and stability have no responsive marketing strategies and programs (marketing capabilities).

H3d: Market culture which emphasizes competitiveness and market superiority positively contributes to the success of marketing capabilities.

H3e: Organizational culture that encourages innovation, risk taking, and dynamism positively influences marketing capabilities.

Table 5.25c Effect of Organizational Factors on Marketing Capabilities

	Estimate	C.R.	St. Estimates	p-value
Marketing Capabilities ← Employee Training	0.17	3.30	0.37	***
Marketing Capabilities ← Reward System	0.13	3.19	0.38	0.001
Marketing Capabilities ← Hierarchy	-0.11	-3.63	-0.28	***
Marketing Capabilities ← Market	0.01	0.06	0.03	0.825
Marketing Capabilities ← Adhocracy	-0.004	0.08	-0.01	0.960

* $p < 0.05$

** $p < 0.01$

*** $p < 0.001$

Hypothesis 3a is supported with t-value of 3.30, significant at 0.001, and with strong effect (0.37) of employee training on marketing capabilities. This means organizations that train employees on customer need awareness, competitor awareness, customer service and other related market factors can have stronger capabilities in designing realistic plans and programs as well as ensuring sound marketing practices.

Hypothesis 3b is supported with t-value of 3.19, significant at 0.01, and with strong effect (0.38) of reward system on marketing capabilities. This means tailoring management rewards to customer satisfaction and sensitivity to competitors' action contributes to the success of marketing strategy and program than rewarding based on short term achievements.

Hypothesis 3c is supported with t-value of -3.63, significant at 0.001, and moderately strong effect (-0.28) of hierarchy culture on marketing capabilities. This implies that bureaucratic culture affects the flexibility and responsiveness of marketing strategies and programs.

Hypothesis 3d is not supported in all possible iterations. The t-value is 0.06, with p-value of 0.825 (not significant at 0.05), and with little effect of market culture on marketing capabilities (0.01). Though not significant, the direction of effect of market culture on marketing capabilities is positive. This implies that market culture rather nurture the guiding philosophy (market orientation) than its implementation in the form of plans and programs (Deshpande, Farley, & Webster 1993).

Hypothesis 3e is not supported in all possible iterations as the t-value is -0.08, with p-value of 0.960 (not significant at 0.05 significance level), and with very weak negative effect of adhocracy culture on marketing strategy and program. The effect of adhocracy on market orientation is significant and positive which implies that attributes of adhocracy culture such as dynamism, entrepreneurial mentality and risk taking demand high focus on external factors (such as customers needs and competitors' actions) than internal marketing practices (marketing capabilities).

5.5.6.2. Marketing Capabilities and Strategic Orientations

Research Question 4: Do marketing capabilities affect the development of firms' market and innovation orientations?

H4a: Market Orientation influence marketing capabilities positively and significantly

H4b: Marketing capabilities influence market orientation positively and significantly.

H4c: Marketing Capabilities influence innovation positively.

Table 5.25d Effect of Marketing Capabilities on Strategic Orientations

	Estimate	C.R.	St. Estimates	p-value
Marketing Capabilities ← Market Orientation	0.38	6.08	0.83	***
Market Orientation ← Marketing Capabilities	1.98	6.31	0.90	***
Innovation ← Marketing Capabilities	0.85	4.56	0.60	***

*** $p < 0.001$

Hypothesis 4a is supported with t-value of 6.08, significant at 0.001, and with stronger impact of market orientation on marketing capabilities (0.83). It is consistent with the widely recognized claim that market orientation philosophy forms the basis of marketing strategy and program formulation and implementation (marketing capabilities). The relationship is vividly presented in the marketing process model of Kotler & Armstrong (2012).

Hypothesis 4b is also supported with t-value of 6.31, significant at the level of 0.001, and with positive and very strong effect (0.90) of marketing capabilities on market orientation. The effect of market orientation on marketing capabilities is as strong as the reciprocal effect of marketing capabilities on market orientation. This is a recent view based on the assumption that the exercise of marketing capabilities (marketing strategy formulation process, product development, price setting, distribution practices, and promotion practices) provides fresh insight to significantly orientate the organization towards the customer, competitor, and inter-functional linkage (Day, 2011).

Hypothesis 4c is supported with t-value of 4.56, significant at 0.001, and with strong effect (0.60) of marketing capabilities on innovativeness. This implies that level of innovation in improving organizational architecture, adapting new and state-of-the-art technology, and increasing research efforts would increase as firms gain more insight from their practice of developing and implementing marketing strategy and program.

5.5.6.3. Strategic Orientations and Competitiveness

Research Question 5: How do strategic orientations (market orientation and innovation) affect performance (competitiveness)?

H5a: Market orientation affects competitiveness positively and strongly.

H5b: Innovativeness affects competitiveness positively and strongly.

Table 5.25e Effect of Market and Innovation Orientations on Competitiveness

	Estimate	C.R.	St. Estimates	p-value
Competitiveness ← Market Orientation	0.30	3.18	0.26	0.001
Competitiveness ← Innovation	0.87	4.83	0.51	***

** $p < 0.01$
*** $p < 0.001$

Hypothesis 5a is supported with t-value of 3.18, significant at the level of 0.01; and with moderately strong effect (0.26) of market orientation on competitiveness. It means understanding customer needs and wants and providing goods and services to satisfy them assist organizations in obtaining sustainable competitive bases than rivals. Although market orientation still has positive effect on firms' competitive advantage, the effect is not very strong in the Ethiopian context. The reason might be the demand exceeds supply in most product categories and firms prefer to be production oriented rather than market oriented.

Hypothesis 5b, innovativeness affects competitiveness positively and significantly, is supported with t-value of 4.83, significant at the level of 0.001, and with stronger effect (0.51) of innovation on competitiveness. It means firms devoted their effort to bring about changes in their product, production process, and administrative activities can obtain sustainable competitive advantage than competitors. The effect of innovation on competitiveness is stronger in the Ethiopian manufacturing environment because formerly firms are doing business activities in very traditional and unproductive manner and now they are undergoing many improvements on their operational as well as administrative practices because of the global pressure.

5.5.6.4. Moderators and strategic orientations

Research Question 6: Do contextual factors (Company age and Company Size) alter the level of impact of market and innovation orientations on performance (i.e., competitiveness)?

H6a: The impact of market orientation on competitiveness is stronger in younger organizations than older companies.

H6b: The impact of market orientation on competitiveness is stronger in large-sized organizations than smaller firms.

H6c: The impact of innovation on competitiveness is stronger in younger organizations than older companies.

H6d: The impact of innovation on competitiveness is stronger in large-sized organizations than smaller firms.

Table 5.26 Effect of Moderators: Summary of Hypotheses Testing Results

Hypothesis		Result
H6a	The impact of market orientation on competitiveness is stronger in younger companies	supported
H6b	The impact of market orientation on competitiveness is stronger in large sized companies	Supported
H6c	The impact of innovation on competitiveness is stronger in younger organizations	Supported
H6d	The impact of innovation on competitiveness is stronger in large-sized organizations	Supported

Hypotheses 6a and 6c are supported because, as results in Table 5.23a show, the effects of market orientation and innovation on competitiveness are positive and stronger for younger companies than older companies.

Hypotheses 6b and 6d are supported because, as results in Table 5.23b show, the statistical effects of the two orientations (market orientation and innovation) on competitiveness are positive and stronger for larger organizations than smaller firms.

Particularly, size moderates the influence of market orientation on competitiveness very strongly.

Chapter 6

Discussion of Research Findings

6.1. Introduction

Regardless of economic context (i.e., developed, developing, and least developed economies), business organizations today, measure operational health in terms of their position in the competitive environment. Regarding the benefits of strategic position, alternative managerial practices and theoretical arguments have been drastically evolving since the beginning of the 20th century. Especially, the scholarly efforts to validate and refine arguments of the competitive advantage theories, and/or to suggesting new lines of arguments, have become significant phenomena in the strategic management literature.

As part of this effort, the present study attempted to examine whether contexts (i.e., business contexts of least developed economies) alter the assumptions and relationships proposed by one of the theories in the strategic management literature-Resource Based View (RBV). Hence, strategic orientations (market and innovation orientations), marketing capabilities, management approaches (such as reward system and employees training programs), and type of organizational culture are defined here as organizational resources and capabilities that determine the existing status and future fates of manufacturers in Ethiopia, one of the least developed economies in Africa. The justifications for choosing this line of argument and the alternative theoretical arguments are discussed at a greater length in Chapter 4.

The main argument of the study, therefore, is that developing strategically important orientations and sound organizational system used to implement them can allow firms to attain above average performance. Accordingly, the study examined how well strategic orientations (i.e., market and innovation orientations) are developed; what managerial and organizational factors determine the implementations of these orientations; and ultimately how such organizational resources (strategic orientations and organizational factors) affect competitive positions.

The study is organized and presented in seven chapters. Chapter 1 discusses the nature of the research and its theoretical and practical contributions. Chapter 2 discusses the reviewed related studies in order to further clarify the contributions of the study to the existing body of literature on marketing and strategic management. A conceptual framework for the study is also developed based on the reviewed literature. In Chapter 3, the relevant facts about the business environments of sub-Saharan Africa and Ethiopia are presented in order to provide a basis for the contextual interpretation of the argument of Resource Based View and the conceptual framework of the present study. In Chapter 4, methodological issues (the research design and methods) including approaches employed by prior related studies pertinent to the subject under investigation are extensively discussed. Chapter 5 presents the data obtained and its analyses. It also includes the Hypotheses tested using the structural equation models and the AMOS program. Building on what have been done on earlier Chapters, Chapter six, this chapter, treats the discussions made on the hypotheses test findings, while Chapter 7 consists of the findings, the conclusions drawn and the potential managerial implications towards the manufacturing businesses in Ethiopia and other similar contexts.

6.2. Discussion of Hypotheses Testing Results

Chapter 5 presents the statistical test results of hypothesized relationships developed at the initial stage of the study. In this section, the statistical test results (i.e., the findings) are discussed in light of the literature reviewed and Ethiopian business context.

6.2.1. Antecedents, Strategic Orientations and Marketing Capabilities

A. Market orientation and Internal Antecedents

Hypotheses testing results show that internal factors such as employee training, reward system, adhocracy culture and market culture affect market orientation significantly. However, these factors are not sufficiently developed in the Ethiopian manufacturing sector to philosophically orientate their strategies towards fulfilling the marketplace requirements. Therefore, contextually, there is no a compelling situation that urges businesses to embrace a market orientation philosophy. This is because Ethiopian businesses have been operating in situations where demand for most products exceeds supply and the business environment is not sufficiently open for a global competition. Hence, Ethiopian manufacturers are more production- oriented than market- oriented. In other words, markets of least developed economies are characterized as seller's market. The following paragraphs present a discussion on the impact of internal antecedents (i.e., employee training, reward system, and organizational culture) on the adoption and development of market orientation, given the prevailing immature business environment.

Impact of training on market orientation

The impact of employee training on market orientation is supported by the evidence collected and analyzed. The result was consistent with prior findings. Despite the strong effect of employee training on market orientation, descriptive statistics results show that Ethiopian manufacturers put inadequate attention (Mean = 3.35 in a 6-point Likert Scale) to employee training, especially training that enables employees to provide superior customer services, generate and utilize marketplace information, and understand customer needs.

Manufacturers in Sub-Saharan Africa have very low employee educational profile compared to manufacturers in Asian and Latin American countries (Dinh, 2012), which requires a significant amount of managerial effort to recognize training as a strategic issue to gain a sustainable competitive position.

However, the extent of investment in training and employee development by Ethiopian businesses is extremely low (WEF-ACR, 2015). This is further witnessed by one of the interviewed managers as follows:

“Training and employee development has not been given the required attention by allocating adequate budget and designing the program in line with company goals and orientations. As a result, training has not been used by Ethiopian manufacturers to develop market oriented mindset among employees and managers and to enhance their proficiency of giving superior customer services and adapting operations to changes in the marketplace.”

Beyond inadequate managerial attention, the employee training practices of Ethiopia are also influenced by external factors including poor quality business schools and inadequate specialized training and research services (WEF-ACR, 2015).

Impact of reward system on market orientation

Consistent with the literature, reward system affects market orientation positively and significantly. However, Ethiopian manufacturers do not usually seem to encourage employees and manager's sensitivity to competitors' actions, customer satisfaction, and marketplace information generation and utilization (Mean=3.09 in a 6-point Likert Scale).

Attractive reward systems and performance appraisal practices designed in line with long-term goals (e.g., customer satisfaction and growth) enable manufacturers to significantly motivate managers and employees to learn and implement market orientation (Jaworski & Kohli, 1993; Atuahene-Gima, 2009). However the amount of remuneration in the manufacturing sector of Sub-Saharan Africa is very low compared to Asian countries because of high tax and indirect costs; and the remuneration is even lower in Ethiopia compared to other Sub-Saharan African countries such as Zambia and Tanzania (Clark, 2012). Ethiopia has also low performance in terms of the extent to which pay is related to productivity (WEF-ACR, 2015). This is further elaborated by one of the interviewed managers as follows:

“The amount of money paid to employees in the form of salary/wage on average consists of 2-5% of the total cost of a manufacturing company. The amount is extremely low for professionals as well as unskilled employees. In addition, companies do not have a reward system that systematically combines financial and non-financial incentives. As a result, available incentives lack the capacity to engage employees fully to develop a market oriented mindset and then drive them toward the realization of the company mission.

Impact of organizational culture on market orientation

Market culture and market orientation

Focus on competitiveness and global achievement (market culture) has been widely recognized as an important determinant of market orientation (Deshpande et al, 1993; Gounaris, 2008). Consistent with such prior findings, this study also found out that the impact of market culture on market orientation is positive and significant. However, Ethiopian manufacturers have not yet developed a market culture (Mean=2.67 on a scale that ranges between 0= non-existent and 10= dominant availability).

Another interesting finding is related to the conceptual meaning of market orientation. Prior studies on market orientation identified two major conceptual meanings namely- behavioral or operational market orientation (Kohli & Jaworski, 1990) and cultural market orientation (Narver & Slater, 1990). The market culture as antecedent to a market orientation is adequately studied using the behavioral conceptualization of market orientation, but few investigations are made on market culture as antecedent to cultural market orientation (González-Benito & González-Benito, 2005). One of the reasons could be the recognition that the cultural conceptualization focuses purely on managerial beliefs, values, and attitudes. Contrary to this, others argue that although the cultural definition of market orientation seems cultural, the measures used to examine the performance impact of market orientation are behavioral (Homburg & Pflesser, 2000). Following this latter argument, the study found the cultural measures of market orientation (i.e., measures developed by Narver & Slater, 1990) to be more behavioral

rather than cultural as market culture is significantly and positively correlated to market orientation which is defined in cultural terms.

A company with high market culture has management and employees with high competitiveness and achievement- oriented mindset. In addition, the strategic emphasis of such companies is on winning in the marketplace. Marketplace- oriented culture can be developed by organizations in situations where the business environment is developed and competitive intensity is high in the industry. The intensity of competition is very low and the rank of Ethiopia in terms of this competitive intensity is 113th out of 144 countries in the world in 2015; and there is an improvement compared to the rank in 2013 (i.e., 139th out of 144 countries). The environment is even less competitive compared to other East African countries such as Kenya and Rwanda (WEF-ACR, 2015). Many factors have been mentioned as reasons for a poorly developed business environment. Some of them include lack of openness, poor access to finance and other inputs, poor trade logistics, policy instability, and poorly functioning institutions (Bigsten & Söderbom, 2010; WEF-ACR, 2015). Hence, the business environment does not pressurize organizations to develop market culture (i.e., a result oriented and aggressive competitiveness mindset).

Adhocracy culture and market orientation

The hypothesis that ‘adhocracy culture has a positive and significant impact on market orientation’ is also supported. This indicates that dynamism, entrepreneurial orientations, and commitment to innovation are important attributes to meet the changing marketplace conditions, especially the changing requirements of customers. However, manufacturers

in Ethiopia do not develop an adhocracy culture (Mean= 2.02 in a scale that ranges between 0= non-existent and 10= dominant availability).

The finding is consistent with the literature in the sense that the Ethiopian companies do not possess the attributes of an adhocracy culture. A company with high adhocracy culture is externally focused and emphasizes differentiation (Cameron & Quinn, 2006). Such organizations encourage employees to take risk, maintain high organizational flexibility, and develop forward- looking mindset. The ultimate goal is to come up with unique products and thereby gain advantage over the competitors (Lukas, Whitwell & Heide, 2013). Overall, high adhocracy culture companies, because of their external focus, are oriented towards fulfilling latent customer needs through radical innovation (Slater & Narver, 1998).

The finding is also consistent with the literature because high external orientation and aggressive introduction of differentiated products is the characteristics of the high tech companies in the developed world (Saeed , Yousafzai , Paladino & Luca, 2015). The very low resources, skills, and capabilities of firms in least developed countries limit them to develop a culture of aggressive innovation and entrepreneurship.

Businesses in Sub-Saharan Africa cannot develop an adhocracy culture because they have a limited internal innovation capacity; and externally, the innovation support giving parties such as scientists, scientific research institutions, good university-industry linkage, and R&D budgets are extremely inadequate (WEF-ACR, 2015). The capacity of firms to innovate and the availability of innovation support giving activities are even lower in Ethiopia compared to some sub-Saharan countries such as Kenya and Tanzania.

Hierarchy culture and market orientation

Compared to other types of culture, hierarchy culture is relatively higher in the Ethiopian manufacturing sector (Mean=3.14 in a scale that ranges between 0-non-existent and 10-dominant availability). However, as hypothesized at the beginning of the study, hierarchy culture has a negative and significant effect on market orientation. Prior research findings pointed out that too much focus on orders and rules prohibit firms to flexibly respond to changes in the marketplace. One contextual justification for higher emphasis on policies and procedures is the low employees profile in terms of professional competency and unfavorable work culture of people. Such employee related characteristics urge managers to focus more on formalization. The result of a hierarchy culture is creating “in-ward looking bureaucratic firm which is not market oriented” (Appiah-Adu & Blannkson, 1998).

The finding is also supported by WEF, African Competitiveness Report (2015). According to the report, compared to other countries in Africa, managers of business organizations in Ethiopia have low experience of delegating decision making authority to unit heads and lower-level managers. This means, self-management and trust (characteristics of clan culture); and flexibility and adaptability (characteristics of adhocracy culture) are not common in Ethiopian manufacturing businesses even though such characteristics are desirable to maintain good competitive posture (Cameron & Quinn, 2006; Hooijberg & Petrock, 1993). The relative dominance of hierarchy culture is also witnessed by one of the interviewed managers as follows:

“Managers usually defined their functions in terms of guiding employees to do tasks according to rules, coordinating activities and ensuring smooth running of the organization. Interviewees mentioned reasons for such reliance on formalization. First, employees lack professional competency to provide autonomy and self-management. Second, employees lack work ethic. Third, in private limited companies, owners do not have trust on the management and they prefer to strengthen policies and procedures.”

B. Innovation and Antecedents

Impact of adhocracy culture on innovation

The hypothesis that ‘adhocracy culture affects innovation positively and significantly’ is supported and the result is consistent with prior research findings (Appiah-Adu & Blannkson, 1998; Gounaries, 2007; Lamore, 2009).

However, as mentioned earlier (in section A), Ethiopian manufactures have not yet developed adhocracy culture; rather a little bit dominant culture in the sector is the hierarchy culture. It means that manufacturers lack the capability and orientation to provide creative and innovative solutions to organizational problems.

Impact of hierarchy culture on innovation

Contrary to the hypothesized relationship, the hierarchy culture affected innovation positively and significantly in the Ethiopian business context. However, it has been recognized in the literature that because of its focus on internal administrative matters (structure, policies, rules, and regulations), it ignores and sometimes block introducing significant changes in product, production process, and management system (Deshpande, Farley, & Webster, 1993; Jaworski & Kohli, 1993).

From the knowledge management point of view, Tseng (2010) found out that hierarchy culture has a positive contribution to systematically utilized explicit knowledge. The finding is related to the current practices of Ethiopian manufacturers. Currently, as part of their innovation effort, businesses in Ethiopia are applying internationally recognized management models (such as Kaizen and BPR) in a hierarchical or systematic, controlled, and top-down fashion (Kassahun, 2012; Desta, 2014). They are also upgrading the facilities, production processes, products and services in the same manner. The situation is further explained by interviewed managers. Managers were asked how organizations in Ethiopia introduce changes and the extent to which the changes have been successful.

“According to interviewees, innovation activities (i.e., BPR, Kaizen, and new pro have been carried out, in most cases, in centralized manner and the rate of success is high. Interviewees indicated different reasons for success. First, centralized and controlled organizational environment can be a favorable situation to successfully introduce changes in companies with low manpower profile. Second, most innovation outcomes are incremental (i.e., in the form of upgrading capacity or enhancing capacity utilizations); they are planned and thoroughly discussed at different levels in the hierarchy; and there is no urgency and sophistication. Therefore, the innovation success rate is higher in companies with the hierarchy culture.”

C. Marketing Capabilities and Antecedents

Marketing Capabilities and Employee Training

As expected, the nature of the training program affects the firms’ marketing capabilities positively and significantly. Employees’ ability to generate, disseminate and use accurate, timely and dependable intelligence would allow firms to develop and continuously improve viable marketing strategies and programs (Vorhies et al, 1999; Morgan et al, 2009). Hence, employees’ competencies in understanding customer needs, actively

detecting marketplace changes and providing better services to customers enhance the overall marketing capabilities (Tharenous et al, 2007).

However, Ethiopian manufacturers do not have sound employee training and development programs designed to enhance their ability to understand customer needs (Mean=3.12, in a 6-point Likert scale), to provide quality customer services (Mean=3.52 in a 6-point Likert scale) and to generate and disseminate dependable intelligence (Mean=3.00 in a 6-point Likert scale). Correspondingly, the marketing capabilities of manufacturers are weak because of limited professional competencies of employees to execute marketing activities.

The finding of this study is consistent with the finding of WEF-ACR (2015). According to the report, businesses in Ethiopia do not apply sophisticated marketing tools and techniques; one reason for that is the inadequacy of employee training and development programs.

Marketing Capabilities and Reward System

As hypothesized, the reward systems of firms also affect marketing capabilities positively and significantly. A system that rewards employees for their being sensitive to competitors' actions, customer satisfaction and generation and use of marketplace intelligence is believed drive employees to considerably contribute to the design and implementation of marketing strategies and programs. Similar to findings in prior studies (e.g., Jaworski & Kohli, 1993; Lings & Greenley, 2009), the present study confirmed that

sound reward system motivate employees to develop market oriented mindset and execute marketing activities accordingly.

However, manufacturers in Ethiopia did not tailor their reward system to motivate employees to be sensitive to competitors actions (Mean=3.03; in a 6-point Likert scale), customers satisfaction (Mean=2.65; in a 6-point Likert scale) and intelligence generation and dissemination (Mean=2.63; in a 6-point Likert scale). Consequently, the contributions of employees to the marketing strategy formulation and implementation are very limited.

The finding on the Ethiopian business practice is consistent with the finding in WEF-ACR, (2015). According to the report, rewards are not systematically linked to major organizational goals such as productivity. Clark (2012) also indicated that employees in African manufacturing firms are given very low wage compared to employees in other regions. Overall, the reward system lack relevance in terms of content (i.e., sound combination of financial and non-financial incentives) and purpose.

Marketing capabilities and hierarchy culture

The hypothesis that ‘hierarchy culture negatively affects marketing capabilities’ is supported. This is consistent with the view that a bureaucratic organization that focuses on rules and order impedes the development and implementation of a flexible marketing strategy and program (e.g., Deshpande et al, 1993; Hooijberg & Petrock, 1993; Cameron & Quinn, 2006; Lukas et al, 2013).

As mentioned earlier, a hierarchy culture is a relatively dominant type of organizational culture in the manufacturing sector of Ethiopia (Mean=3.14). As mentioned earlier, a

hierarchy culture is a relatively dominant type of organizational culture in the manufacturing sector of Ethiopia (Mean=3.14). As a result, managers focus more on controlling (Mean=3.13) compared to their emphasis on ensuring predictability (Mean=2.95). Therefore, in such organizational arrangement, there is no room for management to introduce changes in the marketing strategy and marketing program of a business.

Survey of WEF on African Competitiveness (2015) also indicated that the willingness of top managers to delegate decision making authority is so limited. As a result, employees depend highly on rules and lack flexibility to handle changes.

Marketing capabilities and market culture

The effect of ‘market culture on marketing capabilities’ is positive but not statistically significant. Therefore, the hypothesis is not supported. The finding is related to the argument that a culture which emphasizes competitiveness and success in a competitive environment is more related to orientation (i.e., market orientation) than practice (i.e., the execution of the marketing program) (Homburg & Pflesser, 2000; Deshpande & Farley, 2003; Gambi et al, 2013). It means that a culture that values aggressive competition and achievement is a favorable condition to develop a market orientation (i.e., the philosophy of tailoring organizational practices to marketplace factors) than the execution of the marketing program.

Since the Ethiopian business environment is less competitive, the market culture is not sufficiently developed in the Ethiopian manufacturers; which again lead to poorly developed market orientation and marketing practices (WEF-ACR, 2015).

Marketing capabilities and adhocracy culture

The hypothesis that ‘adhocracy culture affects marketing capabilities positively and significantly’ is not supported. It means that dynamism, entrepreneurship, innovation, and risk taking are not significant contributors to the development of manufacturers marketing capabilities. Moreover, though statistically insignificant, the direction of the relationship between adhocracy culture and marketing capabilities is negative.

The finding has a theoretical justification. Whenever the dynamism or the rate of changes is frequent, there would be frequent disruptions in the implementation of the marketing strategy and program (Kotler & Caslione, 2009).

6.2.2. Marketing Capabilities and Strategic Orientations

Marketing Capabilities and Market Orientation

As hypothesized the impact of market orientation on marketing capabilities (H4a) and the reciprocal impact of marketing capabilities on market orientation (H4b) are supported. In the process of examining the reciprocal relationships, the research identified the following interesting findings.

First, the stronger impact of market orientation on marketing capabilities is expected because of a wider recognition of the marketing concept (i.e., customer needs and

requirements should be the base to develop marketing activities). Along with this, it is found out that the impact of a marketing philosophy (i.e., market orientation) on marketing operations (i.e., marketing capabilities) is stronger when favorable managerial approaches and cultural practices are in place. Accordingly, when employee training, reward system, market culture, and adhocracy culture are modeled as antecedents to market orientation (rather than as antecedents to marketing capabilities), the impact of market orientation on marketing capabilities is stronger (i.e., regression weight= 0.83). On the other hand, when these factors are modeled as antecedents to marketing capabilities (rather than market orientation), the level of the impact is reduced (i.e., regression weight= 0.79).

The strong positive impact of market orientation on marketing capabilities has a sufficient empirical foundation in the literature. Market oriented values and beliefs can serve as a guide to develop relevant skills and abilities of doing marketing routines (e.g., Eriksson, 2014; Lukas et al, 2013; Mengus & Auh, 2006; Narver & Slater, 1990). Literature also supports the contributions of training and reward system as relevant organizational practices to develop market oriented mindset and then to the effective accomplishment of marketing actions (Piercy, 1995; Gounaris, 2008; Fang, Chang, Ou & Chou, 2014). Similarly, market and adhocracy cultures are favorable values to develop market oriented state of mind, which ultimately guides the accomplishment of marketing routines (Homburg & Pflesser, 2000; Leisen, Lilly & Winsor, 2002; Deshpande & Farley, 2003; O’Cass & Ngo, 2007)

Contextually, the level of market orientation is low in the Ethiopian manufacturing sector (see Table 5.10). As a result, the ability of manufacturers to develop customer driven strategy and marketing mix is also limited (see Table 5.12). WEF-ACR (2015) also witnessed the fact that businesses in Ethiopia do not apply sophisticated marketing tools and techniques. This might be attributed to the situation that the Ethiopian market for most products is sellers market.

Second, the reciprocal impact of marketing capabilities on market orientation is also very strong. The effect is stronger when organizational factors (employee training, reward system, and hierarchy culture) are modeled as antecedents to marketing capabilities (regression weight=0.90). In a model where organizational factors are not antecedents to marketing capabilities, the impact of marketing capabilities on market orientation reduced from a regression weight of 0.90 to 0.65. This indicates that appropriate management approaches and favorable organizational culture are needed to execute marketing strategies and programs successfully and thereby generate the required knowledge and insight of customer requirements and opportunities in the marketplace (i.e., market orientation).

The effect of marketing capabilities on market orientation has also empirical base. For example, Pulendran, Speed & Widing (2000) found out that marketing planning is antecedent to market orientation. Morgan et al (2009) also examined the interactive relationship between market orientation and marketing capabilities. Building on this, Day (2011) suggested that market orientation is needed to build marketing capabilities and that

the performance of marketing activities (i.e., marketing capabilities) provide insight to further develop market orientation.

As mentioned earlier, the Ethiopian businesses have not yet developed both the orientation and the skills of conducting marketing activities scientifically.

Marketing capabilities and innovation

The hypothesis that ‘marketing capabilities affect innovation significantly and positively’ is supported. The impact of marketing capabilities on firms innovation is positive and statistically significant (regression weight=0.6). This is consistent with the findings of prior studies in which marketing strategy and program implementation results in changes in product, process, and managerial approaches. For example, Eng, and Spickett-Jones (2009) found that marketing capabilities results in manufacturing upgrades that allow Chinese manufacturers to produce their own brand.

Since manufacturers in Ethiopia did not have an adequate level of market orientation (Mean=3.83 in 6-point Likert Scale) and marketing capabilities (i.e., the ability to translate the orientation through sound marketing strategy and program) (Mean=3.75 in 6-point Likert Scale), the innovation performance (Mean=3.63 in 6-point Likert Scale) in response to marketplace factors is inadequate.

These statistical results are also supported by the survey results of WEF-ACR (2015).

According the report, Ethiopian businesses do not apply sophisticated marketing tools and techniques. Sophisticated marketing operations begins by understanding the marketplace and defining the market/s/ to serve; then developing and executing a competitive

marketing program (i.e., a marketing mix that offers superior values than competitive offerings); and finally, building profitable relationships with customers (Kotler & Armstrong, 2012). In the interview with selected managers, the respondents were asked to explain the nature of marketing operations in Ethiopia and their responses are presented as follows:

The two most visible activities of marketing departments in most manufacturing companies are selling and promotion. People in the marketing department are there to conclude transactions with customers when the order comes; and request budget to undertake mass communication campaign, in most cases, advertising and sponsorship. No attempt from the marketing department, independently and/or in collaboration with other bodies, to 1) define the target markets of the organization; 2) systematically gather information about customers reaction and competitors situations; 3) disseminate information to other departments and decision makers; 4) to suggest alternative strategies such as expanding market coverage or modifying the existing marketing program to meet changing requirements of customers. Overall, the marketing departments are not executing strategically important activities; and they do not apply sophisticated tools because of a) very low competitive intensity in most manufacturing industries; b) lack of competent marketing professionals; and c) lack of understanding of executives, especially those from natural sciences and engineering, about marketing functions.

6.2.3. Strategic Orientations and Competitiveness

Market orientation and Competitiveness

The hypothesis that ‘market orientation affects competitiveness’ is supported. The result is consistent with the argument that market orientation affects performance in both competitive and less competitive business environment contexts (Slater & Narver, 1994). Gonza’lez-Benito & Gonza’lez-Benito (2005) thoroughly examined studies conducted to prove the relationship between market orientation and performance along with the nature of performance measures (i.e., subjective measures or objective measures). The study

indicated that subjective measures (e.g., market share and productivity) confirmed a strong impact of market orientation on performance. Examples of such studies include Atuahene-Gima & Ko, 2001; Harris and Ogbonna 2001; Fritz, 1996; Deshpande & Farley, 2003; Hult et al., 2003; Appiah-Adu and Ranchhod, 1998; Wong & Tong, 2012; and Wang & Miao, 2015.

Despite the strong impact of market orientation on performance, Ethiopian business lack such orientation (Mean=3.83, in a 6-point Likert scale). WEF, African Competitiveness Report (2015) also revealed that Ethiopian businesses have very low customer orientation.

Innovation and Competitiveness

Innovation is hypothesized as a complementary orientation that affects the competitiveness of manufacturers. As is expected and is consistent with prior studies, it is found out that innovation affects competitiveness positively and significantly. Past studies showed that a combination of strategic orientations (such as market orientation, entrepreneurial orientation, innovation, and learning orientation) provides firms with a unique position in the competitive environment (Hult, & Ketchen, 2001; Slater & Narver, 1995).

Two of these orientations are examined in this study and both exhibited significant influence on competitiveness, but the impact of innovation (regression weight = 0.51) is stronger than the impact of market orientation (regression weight = 0.26). The finding has a relationship with arguments in the literature. According to Cadogan, Kuivalainen and Sundqvist (2009) high level of one of the competing strategic orientations means that

firms gave lower emphasis to the other. In addition, based on the ambidexterity logic, behavior that offers immediate returns will dominate (Hughes et al, 2007).

Interviews, conducted with managers, provide contextual explanation to the statistical results:

To date, most manufacturers in Ethiopia have been operating in a traditional way using less productive facilities, inefficient processes, and poor managerial practices. Therefore, currently, Ethiopian manufacturers put more emphasis on changing the nature of their operations, upgrading facilities, and adapting their operations to global requirements.

Despite the fact that innovation is critical for the growth of manufacturing businesses, prior studies confirmed that firms in Sub-Saharan Africa have been exhibiting poor innovation performance because of macro, industry and firm level factors (Elbadawi, et al, 2006; Clark, 2012; Dinh, 2013; Hailu et al, 2015; WEF, 2015): macro-factors (i.e., very weak institutions, inadequate and poor quality infrastructure, unfavorable macroeconomic conditions, inefficient labor market and unproductive education system), industry factors (i.e., market inefficiency, market size, quality of local supply, and nature of competitive advantage), and firm-level factors (poor technology absorption capacity, limited innovation capacity, absence of company spending on R&D, and failure to hire professionally competent managers).

According to WEF-ACR (2015), the success of manufacturing companies in Ethiopia is also influenced by these factors. Firms in Ethiopia have extremely insufficient capacity to innovate and put little emphasis on R&D activities. Because of this the sources of competitive advantage of firms are not unique products and processes; rather they are

striving to get advantage of low cost labor (WEF-ACR, 2015; Yoshino, 2008; Dinh, 2013)

6.2.4. Moderators

The hypothesis that ‘market orientation affects competitiveness strongly in younger organizations than older organizations’ is supported. Young organizations do have more opportunity to develop strategies and management approaches in line with marketplace conditions (i.e., customers and competitors). In order to gain uniqueness and acceptance, young organizations need to be more market oriented; and such orientation also affects their sustainability (Hult et al, 2003; and Zhang & Duan, 2010).

The hypothesis that ‘innovation affects competitiveness more strongly in younger organizations than older organizations’ is supported. Younger companies are in good position to flexibly meet marketplace requirements because they are less bureaucratic, focused, and have relatively high management commitment (Bolívar-Ramos, Garcí'a-Morales, & Garcí'a-Sánchez, 2012; Saunila, Pekkola & Ukko, 2014).

The hypothesis ‘impact of market orientation on competitiveness is stronger in large-sized organizations than smaller firms’ is also supported. Small firms are highly constrained by size-related barriers; and as a result their degree of market orientation is very limited compared to large organizations (Siddique, 2014; Eggers et al, 2013; Didonet et al, 2012). Despite the fact that small businesses are expected to provide superior services to local customers because of good knowledge of customers, such organizations in Ethiopia lack capabilities (financial, material, technical, and knowhow) to adjust themselves to the

changing requirements of customers (WEF, African Competitiveness Report, 2015; Blankson, Motwani & Levenburg, 2006). On the other hand, large organizations are established to serve relatively diversified customer groups with different needs and requirements. Thus to remain competitive large organizations need to tailor their operations to marketplace factors (Li & Lin, 2008; Greenley et al, 2009).

The hypothesis that ‘the impact of innovation on competitiveness is stronger in large sized organizations than smaller firms’ is supported. The finding is consistent with the literature because large firms are better in introducing innovations because of the capabilities they possess compared to smaller firms (Bolívar-Ramos, 2012; Bas et al, 2015). Since large organizations are more vulnerable to global changes than smaller organizations, frequent adaptations through innovation is common for such firms. In line with this, Hult et al (2003) found out that entrepreneurship and organizational learning orientations are relevant orientations for large organizations than small organizations. Despite the benefits of innovation to enhance competitiveness, manufacturing companies in Ethiopia lack the capacity, infrastructure, and support of doing innovation activities (WEF-ACR, 2015).

6.3. Summary

In this chapter statistical results are elaborated in light of empirical academic studies, study reports that are related to sub-Sahara Africa and Ethiopian contexts, and interview feedbacks of managers from manufacturing businesses in Ethiopia.

Based on this, the development of market and innovation orientations, antecedent factors that influence the two orientations and the impact of these orientations on the competitiveness of Ethiopian manufacturing business are extensively discussed.

Chapter 7

Summary of Findings, Implications, and Contributions

7.1. Introduction

As would be recalled, the preceding chapter contains the discussion of the results of the data analysis in light of empirical studies, interview data, and the Sub-Saharan Africa and Ethiopian contexts. Based on this, the present chapter presents the key findings, managerial implications, and contributions of the study and issues that need further investigation.

In other words, the chapter, first, presents summary of key findings by revisiting the research questions. Second, the practical implications of key findings are discussed. The third part of the Chapter describes how the study contributes to knowledge and practice. Finally, issues that need further empirical investigation are suggested.

7.2. Summary of Key Findings-Research Questions Revisited

The aim of the study is to examine the antecedents and the performance impact of strategic orientations. In line with this, the study addressed specific research questions. Based on the analysis of empirical data, the answers to these specific questions have been presented in the present subsection.

7.2.1. How do organizational factors affect market orientation, innovation and marketing capabilities?

A. Antecedents of Market Orientation

The study showed that management practices (i.e., employee training and reward system) are antecedents of market orientation. That means, designing and executing training and reward practices based on marketplace factors help organizations to develop market oriented culture, capability, and behavior. The finding is consistent with that of many other prior studies (e.g., Narver & Slater, 1990; Jaworski & Kohli, 1993; Wei & Atuahene-Gima, 2009; Nyberg et al, 2013). Similarly, the study found adhocracy and market culture as favorable cultural types for the development of market orientation; and it was found out that hierarch culture negatively affects market orientation. This is consistent with the view that because of the focus of adhocracy culture (on entrepreneurship, innovation, and dynamism) and market culture (on result orientation and competitiveness), firms can develop the values and behaviors of detecting marketplace changes and adapting to changes frequently. On the other hand, highly bureaucratic and centralized firms are not able to do their activities based on marketplace factor. The study found hierarchy culture as relatively dominant in the manufacturing environment of Ethiopia

B. Antecedents of Innovation

As hypothesized, empirical evidences showed that adhocracy culture has a significant positive influence on the innovation performance of organizations. This finding is linked to the argument that external orientation and focus on product differentiation as the means

of competitive advantage are essential attributes for higher innovation performance (e.g., Alas et al, 2012; Büschgens, 2014).

The hypothesis that ‘hierarchy culture has a negatively influence on innovation’ is not supported in this study; and the finding is not even consistent with the broadly recognized relationship in the literature. However, contextual interpretations are made from the interview data and documentary sources. First, since the educational profile of employees in the manufacturing sector of Ethiopia is very low, doing innovations in a decentralized manner cannot be a sound strategy. Second, most innovations are incremental and less sophisticated that, in most cases, they are not demanding the creative involvement of people and professionals. Therefore, the common practice is introducing changes (e.g., BPR, Kaizen, etc) in a top-down fashion (Kassahun, 2012; Desta, 2014).

C. Antecedents of Marketing Capabilities

The study confirmed the hypothesis that management practices (i.e., employee training and reward system) and types of organizational culture (i.e., adhocracy, market, and hierarchy) affect the marketing capabilities of organizations. Consistent with the literature, training and reward programs designed based on marketplace factors capacitate management and employees to do marketing operations successfully (Nasution, et al, 2008; Trez & Luce, 2012). Market and adhocracy types of culture have positive relationships with marketing capabilities; but the level of impact is not statistically significant. At the data analysis phase, it is observed that the two types of organizational culture positively and significantly affect the organization’s orientation (i.e., market orientation) than the operation (i.e., marketing capabilities). Similar to its impact on

market orientation, the hierarchy culture negatively affects marketing capabilities; but the level of impact of hierarchy culture is stronger on the operation (i.e. marketing capabilities) than on the orientation (i.e. market orientation). This is consistent with the argument that the organizational structure, rules, and procedures have impact more on the operational activities rather than on values and beliefs.

7.2.2. How do marketing capabilities affect strategic orientations (i.e., market orientation and innovation)?

A. Market Orientation and Marketing Capabilities

As hypothesized, the relationship between market orientation and marketing capabilities are found to be reciprocal. That means, market orientation affects marketing capabilities and, in return, marketing capabilities affects market orientation positively and significantly. The finding is consistent with empirical evidences in the literature. Prior studies show that market orientation (i.e., the knowledge resource or know-what) and marketing capabilities (i.e., the deployment capabilities or know-how) are complementary capabilities that interact with each other in order to create economic rent to the firm (Morgan et al, 2009). Day (2011:186) elaborated the link between market orientation and marketing capabilities as reciprocal whereby “market insights are needed to build marketing capabilities and the exercise of the individual capabilities generates new market insights.”

B. Innovation and Marketing Capabilities

As hypothesized, the impact of marketing capabilities on innovation is positive and strong. That means, successful delivery of the values created by the innovation program

of the organization facilitates continuous innovations in order to adapt a firm's operation to marketplace changes. Holtzman (2014) also argues that the capabilities used to realize new product, process, and system ideas enhance the innovation performance of a firm.

7.2.3. How do strategic orientations affect competitiveness of manufacturing businesses?

A. Market orientation and competitiveness

As hypothesized, market orientation affects competitiveness positively and significantly. Prior studies broadly confirmed the positive contribution of market orientation for organizations to gaining competitive advantages (Kumar, Jones, Venkatesan, & Leone, 2011). There are also studies which argue that market orientation is a relevant orientation for firms operating in a highly competitive and dynamic environment (González-Benito, González-Benito & Muñoz-Gallego, 2014; Kumar et al, 2011). Contrary to this view, the present study proved that market orientation is an important strategic orientation for firms operating even in the least developed business environment. The relevance of market orientation for firms in Sub-Saharan Africa was also proved by similar studies conducted in Kenya (Winston & Dadzie, 2002; Charles, Joel & Samwel, 2012), Ghana (Akomea & Yeboah, 2011), Tanzania (Daulinge, 2009), and Nigeria (Osugwle & Obaji, 2009).

B. Innovation and competitiveness

In line with the hypothesis, innovation performance of firms affects their competitiveness positively and significantly. This means, organizations oriented toward delivering superior values to customers via continuous and successful innovations can gain

sustainable competitive advantage (e.g., Feng et al 2012; Hurly & Hult, 1998). In this study, it is found out that the impact of innovation is higher than the impact of market orientation on the competitiveness of Ethiopian manufacturers. This is because of the current emphasis given by most Ethiopian manufacturers to shift from traditional to modern manufacturing operations. Therefore, the said stronger impact is due to prioritizing orientation (Cadogan et al, 2009) where Ethiopian manufacturers put more emphasis to innovation (i.e., upgrading facilities and processes) than market orientation.

7.2.4. Do company size and company age moderate the impact of strategic orientations on performance?

As expected, the impact of strategic orientations on competitiveness is moderated by company size and age. In this study, it is found out that market orientation and innovation are important strategic orientations for young organizations in order to gain acceptance and competitive position. Similarly, the finding indicates that because of the relatively high competitive intensity in large organizations (i.e., large organizations are exposed to the growing foreign competitors), having significant level of market orientation and innovation enhances competitiveness of such firms.

On the other hand, the relative contributions of market and innovation orientations for the competitiveness of old and small firms are minimal. This is consistent with the finding of Hult et al (2003) in that old firms should place greater emphases on orientations such as organizational learning and entrepreneurship than market orientation. Smaller firms also have inadequate capacity to develop market and innovation orientations compared to large firms (Siddique, 2014; Eggers et al, 2013; Didonet et al, 2012).

7.3. Recommendations

The father of modern management, Peter Drucker (1954), stated that the two most important business functions are marketing and innovation. Hence, market orientation and innovation have long been recognized as strategic orientations that provide firms with a sustainable competitive advantage. The present study also empirically confirmed the effect of the two orientations on the competitiveness of manufacturing businesses by drawing evidences from Ethiopia, one of the least developed economies. Therefore, it is concluded that managers, even in the least developed business environment, should enhance the competitiveness of their businesses via introducing and nurturing market and innovation orientations. In line with this, the study forwarded the following recommendations.

First, managers should develop market- and innovation- oriented culture and behavior by maintaining an outward- looking perspective rather than focusing excessively on internal operations and routines. In other words, managers should put in place the companywide recognition that the base for success is identifying and fulfilling customer needs better than challenges from the competitors. Hence, they need to focus on customer satisfaction, sensing the competitive environment and in responding to changes in the marketplace via developing and executing sound innovation plans. As discussed extensively in Chapter 3, manufacturing businesses in Ethiopia lack the orientation to understand the marketplace factors and thereby to shape their operations accordingly. But, because of the ever increasing presence of foreign firms and increasing number of domestic investors in different manufacturing sectors, the business environment has been exhibiting a growing

state of competitiveness. Therefore, recognition of the marketplace dynamism in the strategy and actions of manufacturing companies is extremely important today than ever before. The situation is best described by the operations manager of Finfine Furniture Factory (3F) as follows:

“I don’t remember the time that the management of 3F had deeper consideration regarding demand and competitive situations. Our main target was how to increase production in order to satisfy the very huge demand for our products. The focus, therefore, was on producing more products by increasing production hours and upgrading machine capacity. Now things are dramatically changing. The number of furniture producers is increasing. In addition, imported furniture products, especially from China, are dominating the market. Moreover, imported products are far better in terms of design, aesthetics, and price compared to products produced by domestic producers. Because of availability of alternative suppliers, customers have shifted to these suppliers and the demand for our products declined alarmingly. As a result, we are forced to give high emphasis to customer requirements. In line with this, we are opening our eyes to observe offerings in the market and design our offerings better than competitors in order to regain the lost demand.”

Prior empirical evidences as well as the comments given by operations manager of 3F indicate that embracing market and innovation orientations should not be a matter of choice; it should rather be a matter of the managers’ duty to setting up organizational architecture, culture, and approaches to develop and sustain such orientations.

Second, the manufacturers found in Ethiopia should develop favorable cultures in order to adopt and develop market and innovation orientations and to successfully undertake changes in structure, product quality, productivity, etc (Cameron & Quinn, 2006). Various types of organizational culture (such as market and adhocracy) are recognized in the literature as favorable conditions to develop strategic orientations (market and innovation orientations) and capabilities to implement them (marketing capabilities). The results of

the study also confirm that organizational culture has an effect on the development and implementation of strategic orientations. However, the empirical data show that these cultures are not adequately developed by Ethiopian manufacturers to bring the required result. Manufacturers in Ethiopia need to undertake the cultural change programs through benchmarking and applying the suggested procedures (e.g., Cameron & Quinn, 2006).

Third, companies should invest in employee training and development program; and the program should be systematically developed to enhance employees' knowledge, skills and attitudes towards serving customers better than competitors. Employees' ability to track changes in the marketplace and to generate, disseminate, and utilize relevant marketplace information has paramount importance to adopt and develop relevant market and innovation orientations. Various studies (such as Desta et al, 2014) revealed that manufacturers in Ethiopia seem to have failed to establish employee training programs that are properly intertwined to strategic company orientations (such as market and innovation orientations).

Fourth, corresponding to enhancing competencies of management and employees, organizations should put in place a reward system that motivate employees and management to provide superior customer value and be alert to changes in the competitive environment. In other words, manufacturers in Ethiopia should implement a reward systems aligned to strategic goals and marketplace conditions.

Fifth, in line with developing market oriented cultures and managerial approaches, upgrading the capacity of making sound marketing decisions (strategy development and execution) and performing successfully actual marketing mix processes are essential.

7.4. Contributions of the Study

7.4.1. Theoretical Contributions

The central questions that have been raised and examined in the market orientation literature are ‘Does competition intensity of the business environment moderate the impact of market orientation on competitiveness?’ ‘Are antecedents such as management emphasis, employee training, reward systems, organizational culture, and other company characteristics determinants of market orientation?’ ‘Are there complementary orientations or strategies along with market orientation that can be considered as better booster of organizational success?’ (E.g, Kholi& Jawersky, 1990; Narver & Slater, 1990; Homburg & Pflesser 2000; Gonzalez-Benito and Gonzalez-Benito, 2006; Raajj & Stoelhorst, 2008; Jimenez-Jimenez et al., 2008)

The questions are addressed more in the developed world, moderately in the emerging economies, and little in the least developed business environment. To validate the argument of resource based theory (i.e., firm level resources are sources of competitive advantage) in general and strategic orientations-performance link in particular, the relationships should be tested in the least developed business contexts.

Thus, the aforementioned questions demand contextual interpretation as the business contexts in the least developed economies are different from the contexts in developed economies. The least developed economies are characterized by a business environment with limited competitiveness, poor management practices, and absence of scientifically crafted strategic path. Hence, it is essential to raise question such as ‘are the orientations

which are proven successful in the developed and emerging economies workable in the least developed economies given the situations mentioned?’ However, the available literature on market and innovation orientation shows inadequacy in terms of addressing this critical question. Taking the argument of RBV, the results of the study prove that the impact of strategic orientations (market and innovation orientations) on firm performance is strong in the least developed economic context in which Ethiopia is a part. This study, therefore, contributes to the development of strategic orientation theory (market and innovation orientations) by testing the impact of these orientations on performance in least developed economies contexts.

The study has also the following additional contributions to the literature:

- More importantly, Narver & Slater’s (1990) model has been criticized for not being a cultural market orientation model because the authors measured market orientation using behavioral measures (González-Benito and González-Benito, 2006; Homburg & Pflesser, 2000). Therefore, the framework used in this study (i.e., modeling types of organizational culture as antecedents to culturally oriented definition of market orientation) can provide clue to check whether the definition given by Narver and Slater (1990) is cultural or behavioral. The finding of the present study indicates that the different types of culture (i.e., hierarchy, adhocracy, and market) are strong determinants of market orientation. This means that the various types of culture are antecedents of behavior rather than another aspect of culture. The finding supports Homburg and Pflesser’s (2000) argument

that asserts Narver and Slater's market orientation model has operational perspective rather than cultural perspective.

- The reciprocal relationships between market orientation and marketing capabilities (market orientation determine marketing capabilities and marketing capabilities affect market orientation) are not adequately treated in the literature. Hence, following Morgan and his colleague's (2009) and Day's (2011) suggestions, the study empirically proves that the relationship between market orientation and marketing capabilities is reciprocal. This is a new insight to market orientation and marketing capabilities body of knowledge. This is because the widely recognized view is that market orientation (focus on customer needs and wants) is determinant of marketing capabilities (marketing strategy and marketing operations).

7.4.2. Practical Contributions

The proposed framework will have significant contribution to practitioners because it assumes that market oriented organizations have the culture, behavior, and capability to effectively generate, process and utilize market knowledge (Narver & Slater, 1990; Kholi & Jawersky, 1990; Dursun-Kilick, 2005). Effective utilization of market knowledge coupled with effective innovation activities help to enhance firm's competitiveness (Hurly and Hult, 1998). The model, therefore, serves as a guide to develop, maintain, and enhance relevant strategic orientations (market and innovation orientations) and identify and develop organizational enablers (management approaches and culture).

7.5. Suggestions for Future Research

The study investigates how internal enablers (management approaches and organizational culture) affect the development of market and innovation orientations. In order to fully understand the effect of strategic orientations on performance in the least developed business contexts, future research should assess external enablers (access to technology, the labor market, availability of support giving organizations, access to finance and other inputs, and general culture) from the view point of developing market and innovation orientations.

In this study, hierarchy culture is positively related to innovation. This finding, however, is contrary to the findings of prior studies. Based on this finding, the study indicates contextual justifications that are related to employees' competencies, work culture, behavior and organizational arrangements. Hence, future study is necessary to validate the result and provide empirical justifications for such relationships.

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APPENDIX 1 SURVEY QUESTIONNAIRE



Dear Respondent,

I am a Doctor of Business Leadership (DBL) candidate at University of South Africa (UNISA), school of Business Leadership. I have chosen the title “Market Oriented Innovation and Competitiveness” as the subject of my doctoral dissertation. The purpose of the study is to investigate how strategic orientations (market and innovation orientations) determine competitive positions of manufacturing businesses in Ethiopia. The study is of value to decisions makers because they can gain insights about market and innovation orientations, recognize the benefits of these strategic orientations, and consider factors that affect their development. Policy makers also use the study as a resource in their effort to create favorable manufacturing environment through the integration of government strategies with firm level decisions. This questionnaire, therefore, asks you, as a member of the company, about various aspects of firm-level capabilities as well as external factors.

Because your organization is one of a few companies in which managers are asked to give their **opinion** on these matters, your cooperation is essential to the success of this research. Hence, in order for the results to truly represent today’s management practices, it is important that each of the questionnaire’s parts be filled carefully and completely. Most of the questions can be answered by circling a number on the scale shown. Your responses are confidential and will be used only to develop a composite picture of opinions.

I hope completion of the survey will not take more than 25 minutes. I recognize the value of your time, and sincerely appreciate your efforts. Should you require any further information, want feedback on the study or need to contact the researcher about any aspect of this study, please contact Mr. Mesfin Workineh Melese, E-mail: mesfinwb@yahoo.com or 72317280@mylife.unisa.ac.za, Tel: 0911 91 95 98.

Best Regards,

Mesfin Workineh Melese
Lecturer, Addis Ababa University
Doctoral Candidate, University of South Africa (UNISA)

Please indicate the extent of your agreement with each of the following statements by circling a number that best represents your opinion. The answers should be given with respect to Your Company based on the following scaling:

Strongly Disagree (SD) = circle 1; Disagree (D) = circle 2; Somehow Disagree (SHD) = circle 3; Somehow Agree (SHA) = 4; Agree (A) = circle 5; Strongly Agree (SA) = circle 6

	S D	D	S H D	S H A	A	S A
Top managers <u>repeatedly</u> tell employees that our organization's survival depends on its <u>adaptability to market trends</u> (such as changes in competition and customers' tastes)	1	2	3	4	5	6
Top managers <u>often</u> tell employees to be sensitive to the <u>activities of competitors</u>	1	2	3	4	5	6
Top managers keep telling people in the organization that they must get ready to meet <u>customers' future needs</u>	1	2	3	4	5	6
According to top management of the organization, <u>servicing customers</u> is <u>the most important thing</u> the company does	1	2	3	4	5	6
Customer contact employees receive <u>formal training</u> on how to serve customers better.	1	2	3	4	5	6
Considerable amount of <u>training</u> is arranged to enhance employees ability to collect, organize, and disseminate market information	1	2	3	4	5	6
Employees receive an <u>ongoing formal training</u> to help them <u>understand customers' needs</u> .	1	2	3	4	5	6
Management of the company believes <u>all employees</u> should be trained in <u>customer awareness</u>	1	2	3	4	5	6
Employees, no matter which department they are in, <u>get recognition</u> for being sensitive to competitors' actions.	1	2	3	4	5	6

The <u>results of customer satisfaction assessments</u> influence senior managers' pay	1	2	3	4	5	6
Formal rewards (i.e., pay raise, promotion) are forthcoming to <u>anyone</u> who consistently provides good market intelligence (information about customers and competitors)	1	2	3	4	5	6
Salespeople's performance is measured by <u>the strengths of relationships</u> they build with customers	1	2	3	4	5	6
Management use <u>customers opinions</u> for evaluating our salespeople	1	2	3	4	5	6

Please rate each of the statements by dividing 10 points between A, B, C and D depending upon how similar the description is to your organization. (10 is very similar and 0 is not at all similar to this firm.) The total points for each question must equal 10. You may only use four numbers that total 10 in each column. Write the number in the box.

Kind of Organization	Rate
A. The organization is a very personal place. It is like an extended family. People seem to share a lot of themselves	<input type="text"/>
B. The organization is very dynamic and entrepreneurial place where risk taking is encouraged.	<input type="text"/>
C. The organization is very results-oriented. A major concern is with getting the job done. People are very competitive and achievement-oriented	<input type="text"/>
D. The organization is a very controlled and structured place. Formal procedures generally govern what people do	<input type="text"/>
Total	<input type="text" value="10"/>

Organizational Leadership	Rate
A. The leadership in the organization is generally considered to exemplify mentoring, facilitating, or nurturing	<input type="text"/>
B. The leadership in the organization is generally considered to exemplify entrepreneurship, innovation, or risk taking	<input type="text"/>
C. The leadership in the organization is generally considered to exemplify a non-nonsense, aggressive, results-oriented focus	<input type="text"/>
D. The leadership in the organization is generally considered to exemplify coordinating, organizing, or smooth-running efficiency	<input type="text"/>
Total	10
Management of Employees	Rate
A. The management style in the organization is characterized by teamwork, consensus and participation	<input type="text"/>
B. The management style in the organization is characterized by individual risk-taking, innovation, freedom and uniqueness	<input type="text"/>
C. The management style in the organization is characterized by hard-driving competitiveness, high demands and achievement	<input type="text"/>
D. The management style in the organization is characterized by security of employment, conformity, predictability and stability in relationship	<input type="text"/>
Total	10

Organizational Glue	Rate
A. The glue that holds the organization together is loyalty and mutual trust. Commitment to this organization runs high	<input type="text"/>
B. The glue that holds the organization together is commitment to innovation and development. There is an emphasis on being on the cutting edge	<input type="text"/>
C. The glue that holds the organization together is the emphasis on achievement and goal accomplishment	<input type="text"/>
D. The glue that holds the organization together is formal rules and policies. Maintaining a smooth running organization is important	<input type="text"/>
Total	10

Strategic Emphases	Rate
A. The organization emphasizes human development. High trust, openness, and participation persist	<input type="text"/>
B. The organization emphasizes acquiring new resources and creating new challenges. Trying new things and prospecting for opportunities are valued	<input type="text"/>
C. The organization emphasizes competitive actions and achievement. Hitting stretch targets and winning in the marketplace are dominant	<input type="text"/>
D. The organization emphasizes permanence and stability. Efficiency, control, and smooth operations are important	<input type="text"/>
Total	10

Criteria of Success	Rate
A. The organization defines success on the basis of the development of human resources, teamwork, employee commitment, and concern for people	<input type="text"/>
B. The organization defines success on the basis of having the most unique or newest products. It is a product leader and innovator	<input type="text"/>
C. The organization defines success on the basis of winning in the marketplace and outpacing the competition. Competitive market leadership is key	<input type="text"/>
D. The organization defines success on the basis of efficiency. Dependable delivery, smooth scheduling, and low-cost production are critical	<input type="text"/>
Total	10

Please indicate the extent of your agreement with each of the following statements by circling a number that best represents your opinion

Strongly Disagree (SD) = circle 1; Disagree (D) = circle 2; Somehow Disagree (SHD) = circle 3; Somehow Agree (SHA) = 4; Agree (A) = circle 5; Strongly Agree (SA) = circle 6

	S D	D	S H D	S H A	A	S A
We <u>constantly monitor</u> our level of commitment and orientation to serving customers' needs	1	2	3	4	5	6
Our business objectives are driven <u>primarily</u> by customer satisfaction	1	2	3	4	5	6
Our strategy for competitive advantage is based on our <u>understanding of customer needs</u>	1	2	3	4	5	6
Our <u>business strategies</u> are driven by our beliefs about how we can create <u>greater value</u> for customers	1	2	3	4	5	6
We measure customer satisfaction <u>systematically and frequently</u>	1	2	3	4	5	6
We give <u>close attention</u> to after-sales service	1	2	3	4	5	6

We <u>rapidly</u> respond to competitive actions that threaten us	1	2	3	4	5	6
Our salespeople <u>regularly share information</u> within our organization concerning competitors' strategies	1	2	3	4	5	6
Top management <u>regularly discusses</u> competitors' strengths and strategies	1	2	3	4	5	6
We <u>target customers</u> where we have an opportunity for competitive advantage	1	2	3	4	5	6
All of our business functions (e.g. marketing/sales, manufacturing, research & development etc.) are <u>integrated</u> in serving the needs of our target markets	1	2	3	4	5	6
All of our business functions and departments are <u>responsive to each other's needs and requests</u> (e.g., finance is responsive to needs of marketing department and vice versa)	1	2	3	4	5	6
Our top managers from every function <u>regularly</u> visit our current and prospective customers	1	2	3	4	5	6
We <u>freely communicate information</u> about our successful and unsuccessful customer experiences across all business functions	1	2	3	4	5	6
Our managers understand how <u>everyone</u> in our business can contribute to creating customer value	1	2	3	4	5	6

Please indicate your opinion regarding performance of the marketing function of your company compared to competitors. The responses range from Much Better to Much Worse.

Much worse (MW) = circle 1; Worse (W) = circle 2; Somehow Worse(SHW) = circle 3; Somehow Better (SHB) = 4; Better (B) = circle 5; Much Better (MB) = circle 6

	M W	W	S H W	S H B	B	M B
Using <u>pricing skills and systems</u> to respond quickly to market changes	1	2	3	4	5	6
<u>Monitoring</u> competitors' prices and price changes	1	2	3	4	5	6
<u>Ability</u> to develop new products/services	1	2	3	4	5	6
Successfully launching <u>new products/services</u>	1	2	3	4	5	6
Insuring that product/service development efforts are <u>responsive to customer needs</u>	1	2	3	4	5	6
Strength of <u>relationships</u> with distributors	1	2	3	4	5	6
Attracting and retaining the <u>best distributors</u>	1	2	3	4	5	6
Providing <u>high levels</u> of service support to distributors	1	2	3	4	5	6
Effectiveness of <u>promotional activities</u> (e.g., advertising) in gaining market share/sales growth	1	2	3	4	5	6
<u>Brand image</u> management skills and processes	1	2	3	4	5	6
Managing <u>corporate image</u> and reputation	1	2	3	4	5	6
Ability to effectively <u>segment and target</u> market	1	2	3	4	5	6
Developing <u>creative</u> marketing strategies	1	2	3	4	5	6
<u>Organizing</u> to deliver marketing programs effectively	1	2	3	4	5	6
Translating <u>marketing strategies</u> into action	1	2	3	4	5	6
Monitoring <u>marketing performance</u>	1	2	3	4	5	6

Please indicate your opinion to each of the following statements regarding the performance of the organization compared to competitors' performance. The responses range from very high to very low.

Very Low (VL) = 1; Low (L) = 2; Somehow Low (SHL) = 3; Somehow High (SHH) = 4; High (H) = 5; Very High (VH) = 6

Compared to main competitors, how do you rate the innovation performance of your company?	V L	L	S H L	S H H	H	V H
Number of <u>innovative products and services</u> our company has introduced during the past 5 years	1	2	3	4	5	6
Newness of the <u>manufacturing process</u> in our company	1	2	3	4	5	6
Implementation of new manufacturing process to increase <u>production capacity and flexibility</u>	1	2	3	4	5	6
Frequency of changes in <u>production methods</u>	1	2	3	4	5	6
Success in the implementation of <u>new or altered</u> organizational structures, strategies, and administrative policies during the past 5 years	1	2	3	4	5	6
Amount of <u>Research and Development (R&D) budget</u> allocated by the company during the past 5 years	1	2	3	4	5	6
Achievements in <u>technology sourcing and adaptation</u> during the last 5 years	1	2	3	4	5	6
Achievements in <u>introducing state of the art technology</u> in production, marketing, and administrative practices	1	2	3	4	5	6

Please indicate your opinion with each of the following statements by circling a number that best represents your company. The responses range from ‘Not at All’ to ‘A Great Deal.’

	Not at all					A great Deal
The innovation based on marketplace conditions assisted your firm to gain the advantage over competitors by <u>entering new markets</u> .	1	2	3	4	5	6
The innovation based on marketplace conditions assisted your firm to gain the advantage over competitors by <u>increasing market share</u> .	1	2	3	4	5	6
The innovation based on marketplace conditions assisted your firm to gain the advantage over competitors in <u>increasing return on investment</u>	1	2	3	4	5	6
The innovation based on marketplace conditions assisted your firm to <u>increase productivity</u>	1	2	3	4	5	6

General Questions

1. Name of industry your company is in (e.g., food processing, Textile, etc.): _____
2. Your current Job Title: _____
3. Number of years you have been working in the company: _____
4. Number of years you have been in the current position: _____
5. For how many years your company is in business: _____
6. Number of employees in the company (please check one only)
 51- 99
 100 - 499
 500 - 999
 1000-4999
 5000+
7. The amount of annual turnover of last year (please check one only)

<input type="checkbox"/> < 1 Million Birr	<input type="checkbox"/> 20 million -50 million Birr
<input type="checkbox"/> 1 million-5 million Birr	<input type="checkbox"/> 50 million – 100 million Birr
<input type="checkbox"/> 5 million-10million Birr	<input type="checkbox"/> 100 million- 500 million Birr
<input type="checkbox"/> 10 million-20 million Birr	<input type="checkbox"/> > 500 million

Note: The final questionnaire was designed in booklet format and printed using colored paper.



University of South Africa
Graduate School of Business Leadership
Survey Questionnaire

Dear Respondent,

I am a Doctor of Business Leadership (DBL) candidate at University of South Africa (UNISA), school of Business Leadership. I have chosen the title "Market Oriented Innovation and Competitiveness" as the subject of my doctoral dissertation. The purpose of the study is to investigate how strategic orientations (market and innovation orientations) determine competitive positions of manufacturing businesses in Ethiopia. The study is of value to decisions makers because they can gain insights about market and innovation orientations, recognize the benefits of these strategic orientations, and consider factors that affect their development. Policy makers also use the study as a resource in their effort to create favorable manufacturing environment through the integration of government strategies with firm level decisions. This questionnaire, therefore, asks you, as a member of the company, about various aspects of firm-level capabilities as well as external factors.

Because your organization is one of a few companies in which managers are asked to give their opinion on these matters, your cooperation is essential to the success of this research. Hence, in order for the results to truly represent today's management practices, it is important that each of the questionnaire's parts be filled carefully and completely. Most of the questions can be answered by circling a number on the scale shown. Your responses are confidential and will be used only to develop a composite picture of opinions.

I hope completion of the survey will not take more than 25 minutes. I recognize the value of your time, and sincerely appreciate your efforts. Should you require any further information, want feedback on the study or need to contact the researcher about any aspect of this study, please contact Mr. Mesfin Workneh Melese, E-mail: mesfinwb@yahoo.com or 72317280@myfile.unisa.ac.za, Tel: 0911 91 95 98.

Best Regards,

Mesfin Workneh Melese
Lecturer, Addis Ababa University
Doctoral Candidate, University of South Africa (UNISA)

Business has only two basic functions: Marketing and Innovation
Peter Drucker (1909 - 2005)

APPENDIX 2 INTERVIEW GUIDE



Interview Questions

1. How do you describe the manufacturing environment of Ethiopia? Please describe the nature of competition in the manufacturing sector in general and the nature of competition in your industry in particular.
2. How should manufacturers orient themselves in order to grow their business? Please explain the current strategic emphasis of manufacturing businesses in Ethiopia.
3. How important is ‘understanding marketplace factors (i.e., understanding customer needs and competitors actions to satisfy those needs)’ for the success of manufacturers in Ethiopia?
4. How do you explain the nature of innovation and innovation performance of manufacturing businesses in Ethiopia?
5. What are the benefits of training and employee development program of organizations? How do you evaluate the training and development practices of manufacturing businesses in terms of design, execution and outcome?
6. How do you describe the reward systems of manufacturing businesses in Ethiopia? Please explain the incentive packages the outcomes of the packages in terms of motivating employees to realize organizational goals.
7. Overall, which of the following managerial values and believes best describe the manufacturing sector? Why?

In my organization and in most other manufacturing businesses, management value

- a. human resources, training, cohesion, and staff morale
- b. dynamic, entrepreneurial, and creative workplace; and commitment to experimentation and pioneering
- c. competitive superiority; aggressively outperform competitor products
- d. formalized and structured workplace; ensure smooth running of the organization through proper coordination and organization

APPENDIX 3 ETHICAL CLEARANCE CERTIFICATE

Graduate School of Business Leadership, University of South Africa PO Box 392, Unisa, 0003, South Africa
Cnr Janadel and Alexandra Avenue, Midrand, 1685, Tel: +27 11 652 0000, Fax: 011 652 0299
Website: www.sblunisa.ac.za



31 January 2014

Ref: # 2013_DBL_015 (FA: Addis Ababa)

Mr Mesfin Workineh Melese: student researcher [+251 911 919 598; mesfinwb@yahoo.com]
Dr Salehu Anteneh Temare: Supervisor [+251 911 642 307; salehu.anteneh@aau.edu.et]

GRADUATE SCHOOL OF BUSINESS LEADERSHIP RESEARCH ETHICS REVIEW COMMITTEE (GSBL RERC)

This is to certify that the application for ethics clearance submitted by
Mr Mesfin Workineh Melese: (student # 72317280) in the fulfilment of a
Doctoral Degree in Business Leadership:

Market Oriented Innovation and Competitiveness: Empirical Investigation into Ethiopian Manufacturers' Strategic Orientations and Outcome has received ethics approval

The revised research ethics application for the abovementioned research project was reviewed by a sub-committee of the GSBL RERC in compliance with the Unisa Policy on Research Ethics, on 31 January 2014. Final ethics approval has been granted. The decision will be communicated to the SBL Research Ethics Review Committee.

This certificate is valid for the duration of the project. Please be advised that the committee needs to be informed should any part of the research methodology as outlined in the ethics application [2013_DBL_015 (FA: Addis Ababa)] change in any way or if any ethical problems are encountered during the course of the study.

The Graduate School of Business Leadership Research Ethics Review Committee wishes you all the best with this research undertaking.

Kind regards,

Dr RG Visagie

Chairperson of the Research Ethics Review Committee, GSBL, UNISA
+2712-429 2478/ Visagrg@unisa.ac.za

APPENDIX 4 LETTER OF COOPERATION



18th December, 2013

Ref. No.: UNISA-ET-SBL-RC/9/18-12-13

To whom it may concern

Subject: Research Cooperation

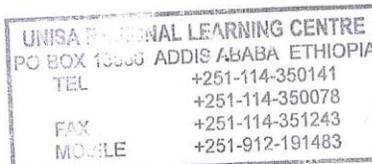
Dear Sir/Madam,

This is to request your assistance and cooperation to Mr. Mesfin Workineh Melese, student number 723117280, a student of Doctor of Business Leadership (DBL) at UNISA Graduate School of Business Leadership, who is doing his thesis on "Market Oriented Innovation and Competitiveness: Empirical Investigation into Ethiopian Manufacturers' Strategic Orientations and Outcomes" The Business School will observe any confidentiality requirements as requested regarding any information made available to him in assisting with this study. The student must give his commitments as well to the confidentiality requirement.

On behalf of UNISA-SBL and the student, we thank you for your willingness to be assistance to him.

With best regards,


Yifru Tafesse
Regional Coordinator
UNISA Graduate School of Business Leadership



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Tel. +251 111 435 20 92
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Facsimile: +251 11 435 1242/ 43/ 44
Mobile: +251 912 19 1483
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APPENDIX 5 RELIABILITY ESTIMATES OF MODEL CONSTRUCTS

Constructs	Cronbach Alpha	Standardized Item Alpha
Top Management Emphasis	0.73	0.73
Employee Training	0.83	0.84
Reward System	0.81	0.81
Clan Culture	0.78	0.78
Adhocracy Culture	0.87	0.87
Market Culture	0.78	0.77
Hierarchy Culture	0.87	0.87
Market Orientation	0.92	0.92
Customer Orientation	0.86	0.86
Competitor Orientation	0.77	0.77
Inter-functional Coordination	0.83	0.83
Marketing Capabilities	0.93	0.92
Marketing Mix	0.86	0.86
Marketing Strategy	0.94	0.94
Innovativeness	0.84	0.84
Competitiveness	0.77	0.77

APPENDIX 6 CFA OUTPUTS OF THE AMOS PROGRAM

Appendix 6.1 CFA Results for Employee Training and Reward System

CFA Results for Organizational Factors (Figure 5.2a)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	31	286.281	74	.000	3.869
Saturated model	105	.000	0		
Independence model	14	1351.194	91	.000	14.848

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.788	.739	.834	.793	.832
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.119	.105	.134	.000
Independence model	.261	.249	.274	.000

CFA Results for Organizational Factors (Figure 5.2b)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	16	24.313	12	.018	2.026
Saturated model	28	.000	0		
Independence model	7	750.207	21	.000	35.724

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.968	.943	.983	.970	.983
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.071	.028	.112	.176
Independence model	.414	.388	.439	.000

Appendix 6.2 CFA Results of Organizational Culture

CFA Results of Organizational Culture (Figure 5.3a)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	54	2727.643	246	.000	11.088
Saturated model	300	.000	0		
Independence model	24	5244.895	276	.000	19.003

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.480	.417	.504	.440	.501
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.223	.215	.231	.000
Independence model	.298	.291	.305	.000

CFA Results of Organizational Culture (Figure 5.3b)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	23	64.371	32	.001	2.012
Saturated model	55	.000	0		
Independence model	10	869.485	45	.000	19.322

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.926	.896	.961	.945	.961
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.071	.045	.095	.086
Independence model	.300	.283	.318	.000

Appendix 6.3 CFA Results of Market Orientation

CFA Results of Market Orientation (Figure 5.4a)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	33	224.971	87	.000	2.586
Saturated model	120	.000	0		
Independence model	15	1572.176	105	.000	14.973

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.857	.827	.907	.887	.906
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.088	.074	.103	.000
Independence model	.262	.251	.274	.000

CFA Results of Market Orientation (Figure 5.4b)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	32	137.611	73	.000	1.885
Saturated model	105	.000	0		
Independence model	14	1441.109	91	.000	15.836

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.905	.881	.953	.940	.952
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.066	.049	.083	.061
Independence model	.270	.258	.283	.000

CFA Results of Market Orientation (Figure 5.4c)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	32	137.611	73	.000	1.885
Saturated model	105	.000	0		
Independence model	14	1441.109	91	.000	15.836

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.905	.881	.953	.940	.952
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.066	.049	.083	.061
Independence model	.270	.258	.283	.000

CFA Results of Market Orientation (Figure 5.4d)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	5	.319	1	.572	.319
Saturated model	6	.000	0		
Independence model	3	329.785	3	.000	109.928

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.999	.997	1.002	1.006	1.000
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.000	.000	.153	.660
Independence model	.733	.667	.800	.000

Appendix 6.4 CFA Results of Innovation

CFA Results of innovation (Figure 5.5a)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	16	127.434	20	.000	6.372
Saturated model	36	.000	0		
Independence model	8	657.677	28	.000	23.488

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.806	.729	.832	.761	.829
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.163	.136	.190	.000
Independence model	.333	.311	.355	.000

CFA Results of innovation (Figure 5.5b)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	12	21.077	9	.012	2.342
Saturated model	21	.000	0		
Independence model	6	470.289	15	.000	31.353

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.955	.925	.974	.956	.973
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.081	.036	.127	.113
Independence model	.387	.357	.417	.000

Appendix 6.5 CFA Results of Marketing Capabilities

CFA Results of Marketing Capabilities (Figure 5.6a)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	42	198.000	94	.000	2.106
Saturated model	136	.000	0		
Independence model	16	2686.343	120	.000	22.386

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.926	.906	.960	.948	.959
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.074	.059	.088	.004
Independence model	.325	.314	.335	.000

CFA Results of Marketing Capabilities (Figure 5.6b)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	10	22.362	5	.000	4.472
Saturated model	15	.000	0		
Independence model	5	338.905	10	.000	33.891

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.934	.868	.948	.894	.947
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.131	.079	.188	.007
Independence model	.403	.366	.440	.000

CFA Results of Marketing Capabilities (Figure 5.6c)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	8	1.337	2	.513	.668
Saturated model	10	.000	0		
Independence model	4	279.959	6	.000	46.660

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.995	.986	1.002	1.007	1.000
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.000	.000	.124	.660
Independence model	.474	.428	.522	.000

Appendix 6.6 CFA Results of Competitiveness

CFA Results Competitiveness (Figure 5.7)

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	8	34.103	2	.000	17.051
Saturated model	10	.000	0		
Independence model	4	229.543	6	.000	38.257

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.851	.554	.859	.569	.856
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.281	.203	.368	.000
Independence model	.428	.382	.477	.000

APPENDIX 7 RESULTS OF THE CAUSAL SEM MODEL

Appendix 7.1 Results for the Causal SEM Model (MO as antecedent to MC)

Results of the Causal SEM Model (Figure 5.8a)

a) Model Fit Summary

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	84	994.903	511	.000	1.947
Saturated model	595	.000	0		
Independence model	34	4294.454	561	.000	7.655

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.768	.746	.872	.858	.870
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.068	.062	.075	.000
Independence model	.181	.176	.186	.000

b) Statistical Test Results

Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
Market_Orientation	<---	Employee_Training	.396	.089	4.424	***	
Market_Orientation	<---	Reward_System	.317	.070	4.549	***	
Market_Orientation	<---	Adhocracy	.002	.113	.015	.988	
Market_Orientation	<---	Hierarchy	-.239	.120	-1.984	.047	
Market_Orientation	<---	Market	.004	.089	.043	.966	
Marketing_Capabilities	<---	Market_Orientation	.391	.068	5.746	***	
Innovation	<---	Marketing_Capabilities	.797	.183	4.347	***	
Innovation	<---	Adhocracy	.227	.075	3.022	.003	
Innovation	<---	Hierarchy	.153	.066	2.307	.021	
Competitiveness	<---	Market_Orientation	.135	.088	1.535	.125	
Competitiveness	<---	Innovation	.980	.184	5.329	***	

Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
Market_Orientation	<---	Employee_Training	.407
Market_Orientation	<---	Reward_System	.416
Market_Orientation	<---	Adhocracy	.002
Market_Orientation	<---	Hierarchy	-.293
Market_Orientation	<---	Market	.004
Marketing_Capabilities	<---	Market_Orientation	.844
Innovation	<---	Marketing_Capabilities	.556
Innovation	<---	Adhocracy	.388
Innovation	<---	Hierarchy	.283
Competitiveness	<---	Market_Orientation	.124
Competitiveness	<---	Innovation	.597

Results of the Causal SEM Model (Figure 5.8b)

a) Model Fit Summary

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	82	705.237	446	.000	1.581
Saturated model	528	.000	0		
Independence model	32	4006.074	496	.000	8.077

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.824	.804	.927	.918	.926
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.054	.046	.061	.217
Independence model	.187	.181	.192	.000

b) Statistical Test Results

Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P	Label
Market_Orientation	<---	Adhocracy	.173	.050	3.488	***	
Market_Orientation	<---	Market	.149	.056	2.658	.008	
Market_Orientation	<---	Employee_Training	.240	.087	2.758	.006	
Market_Orientation	<---	Reward_System	.455	.073	6.201	***	
Marketing_Capabilities	<---	Market_Orientation	.377	.062	6.077	***	
Marketing_Capabilities	<---	Hierarchy	-.019	.022	-.866	.386	
Innovation	<---	Marketing_Capabilities	.832	.183	4.556	***	
Innovation	<---	Adhocracy	.239	.071	3.350	***	
Innovation	<---	Hierarchy	.175	.066	2.669	.008	
Competitiveness	<---	Innovation	.873	.181	4.833	***	
Competitiveness	<---	Market_Orientation	.296	.093	3.178	.001	

Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
Market_Orientation	<---	Adhocracy	.196
Market_Orientation	<---	Market	.152
Market_Orientation	<---	Employee_Training	.247
Market_Orientation	<---	Reward_System	.619
Marketing_Capabilities	<---	Market_Orientation	.825
Marketing_Capabilities	<---	Hierarchy	-.049
Innovation	<---	Marketing_Capabilities	.581
Innovation	<---	Adhocracy	.414
Innovation	<---	Hierarchy	.323
Competitiveness	<---	Innovation	.507
Competitiveness	<---	Market_Orientation	.263

Appendix 7.2 Results for the Causal SEM Model (MC as antecedent to MO)

Results of the Causal SEM Model (Figure 5.8c)

a) Model Fit Summary

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	82	826.433	446	.000	1.853
Saturated model	528	.000	0		
Independence model	32	4006.074	496	.000	8.077

Baseline Comparisons

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
Default model	.794	.771	.893	.879	.892
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.065	.058	.072	.000
Independence model	.187	.181	.192	.000

b) Statistical Test Results

Regression Weights: (Group number 1 - Default model)

		Estimate	S.E.	C.R.	P
Innovation	<--- Marketing_Capabilities	.799	.167	4.782	***
Innovation	<--- Adhocracy	.231	.070	3.295	***
Innovation	<--- Hierarchy	.151	.061	2.472	.013
Market_Orientation	<--- Adhocracy	.073	.140	.522	.601
Market_Orientation	<--- Market	.040	.112	.354	.723
Market_Orientation	<--- Employee_Training	.129	.111	1.154	.248
Market_Orientation	<--- Reward_System	.294	.109	2.704	.007
Market_Orientation	<--- Hierarchy	-.025	.169	-.148	.882
Market_Orientation	<--- Marketing_Capabilities	1.139	.189	6.021	***
Competitiveness	<--- Innovation	.865	.172	5.042	***
Competitiveness	<--- Market_Orientation	.302	.106	2.845	.004

Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
Innovation	<---	Marketing_Capabilities	.572
Innovation	<---	Adhocracy	.394
Innovation	<---	Hierarchy	.274
Market_Orientation	<---	Adhocracy	.099
Market_Orientation	<---	Market	.048
Market_Orientation	<---	Employee_Training	.158
Market_Orientation	<---	Reward_System	.463
Market_Orientation	<---	Hierarchy	-.036
Market_Orientation	<---	Marketing_Capabilities	.645
Competitiveness	<---	Innovation	.526
Competitiveness	<---	Market_Orientation	.232

Results of the Causal SEM Model (Figure 5.8d)

a) Model Fit Summary

CMIN

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	82	748.686	446	.000	1.679
Saturated model	528	.000	0		
Independence model	32	4006.074	496	.000	8.077

Baseline Comparisons

Model	NFI	RFI	IFI	TLI	CFI
	Delta1	rho1	Delta2	rho2	
Default model	.813	.792	.915	.904	.914
Saturated model	1.000		1.000		1.000
Independence model	.000	.000	.000	.000	.000

RMSEA

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	.058	.051	.065	.039
Independence model	.187	.181	.192	.000

b) Statistical Test Results

Regression Weights: (Group number 1 - Default model)

			Estimate	S.E.	C.R.	P
Marketing_Capabilities	<---	Hierarchy	-.107	.030	-3.627	***
Marketing_Capabilities	<---	Reward_System	.126	.040	3.189	.001
Marketing_Capabilities	<---	Employee_Training	.165	.050	3.301	***
Innovation	<---	Marketing_Capabilities	.850	.186	4.558	***
Innovation	<---	Adhocracy	.238	.072	3.329	***
Innovation	<---	Hierarchy	.188	.067	2.786	.005
Market_Orientation	<---	Adhocracy	.036	.046	.786	.432
Market_Orientation	<---	Market	-.002	.051	-.045	.964
Market_Orientation	<---	Marketing_Capabilities	1.979	.314	6.311	***
Competitiveness	<---	Innovation	.878	.187	4.705	***
Competitiveness	<---	Market_Orientation	.280	.096	2.910	.004

Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
Marketing_Capabilities	<---	Hierarchy	-.281
Marketing_Capabilities	<---	Reward_System	.376
Marketing_Capabilities	<---	Employee_Training	.372
Innovation	<---	Marketing_Capabilities	.597
Innovation	<---	Adhocracy	.414
Innovation	<---	Hierarchy	.346
Market_Orientation	<---	Adhocracy	.041
Market_Orientation	<---	Market	-.002
Market_Orientation	<---	Marketing_Capabilities	.895
Competitiveness	<---	Innovation	.507
Competitiveness	<---	Market_Orientation	.251