



Faculty of Technology Management and Technopreneurship



**THE MODERATION OF INNOVATION ON THE RELATIONSHIP
BETWEEN MARKET ORIENTATION AND FIRM PERFORMANCE**

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**THE MODERATION OF INNOVATION ON THE RELATIONSHIP BETWEEN
MARKET ORIENTATION AND FIRM PERFORMANCE**

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**A thesis submitted
in fulfillment of the requirements for the degree of Doctor of Philosophy**



Faculty of Technology Management and Technopreneurship

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

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2021

DECLARATION

I declare that this thesis entitled “The Moderation Of Innovation On The Relationship Between Market Orientation And Firm Performance” is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.

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Date : 8 NOVEMBER 2021



APPROVAL

I hereby declare that I have read this thesis, and in my opinion, this thesis is sufficient in terms of scope and quality for the award of Doctor of Philosophy.

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Date : 8 NOVEMBER 2021

اونيورسيتي تيكنيكل ماليزيا ملاك
UNIVERSITI TEKNIKAL MALAYSIA MELAKA

DEDICATION

This thesis is lovingly dedicated to my parents, husband and siblings.

For their endless love, support and encouragement.

My humble effort I dedicate to,

My mother, Rasidah binti Mat Nor and late father, Mohd Yusof bin Ibrahim,
whose affection, love, encouragement and prayer, day and night, make me capable of such
success and honour.

My amazing and supportive husband, Erman bin Imam Suwarni,
whose sacrificial care for me,
made it possible for me to complete this work.

My loving family,
who always support me in completing this thesis.

ABSTRACT

Rapid changes in globalization trends demand manufacturers to improve quality, serviceability and versatility, in order to stay competitive in the manufacturing industry. Broadly, Malaysia's manufacturing industry has expected to grow and expand to stay relevant and compete in this competitive environment. As a reward, Malaysia is likely to benefit from these trends, although robust domestic demand and attractive external demand fuel investment growth during speedy recovery in developed economies and faster growth prospects in the nation. Furthermore, innovation has been proved to add advantage and contribute to the success of a firm. Meanwhile, manufacturers need to clearly understand their market orientation through their customer needs and wants, competitor strategy and as well as delivering excellent firm performance. From the following circumstances, this study aimed to explore the impact of market orientation and innovation on firm performance in the manufacturing sectors in Malaysia. Additionally, the researcher also determines to examine the impact of innovation as the moderator towards the relationship of market orientation and firm performance. Extensive literature showed that market orientation consists of cultural and behavioral concepts, and through MKTOR and MARKOR measurement, customer orientation, competitor orientation, inter-functional coordination, intelligence generation, intelligence dissemination and organizational responsiveness were identified as the independent variables. At the same time, firm performance was selected as the dependent variable. In order to meet the research objectives, this study employed a quantitative method by conducting self-administered survey questions and stratified random sampling to 321 manufacturers. The distribution of questionnaires was conducted by hand and through electronic mail. The same method was applied in data collection. The results from correlation, multiple regression and hierarchical regression have identified that market orientation significantly affects firm performance. Cultural components as the elements of market orientation showed significant results, although another component which is the behavioral element, showed an insignificant result. The dimensions of cultural components; competitor orientation and inter-functional coordination, showed significant results, whereas customer orientation and competitive action showed insignificant results. Dimensions of behavioral components, which are intelligence generation and intelligence dissemination, significantly impact the performance. Meanwhile, organizational responsiveness showed an insignificant impact. Innovation, on the other hand, showed to be effective in moderating the impact of market orientation towards performance. The study contributes to the body of knowledge by examining the combination of both components of market orientation which are cultural and behavioral aspects and as well as the moderating roles of innovation. Secondly, it complements the market orientation theory regarding the interconnection between innovation and performance. In conclusion, this study provided a clearer understanding of market orientation and innovation practiced by manufacturers in Malaysia and offer several implications for research, policymakers, and practitioners.

KESAN MODERASI TERHADAP INOVASI DALAM HUBUNGAN ANTARA ORIENTASI PASARAN DAN PRESTASI SYARIKAT

ABSTRAK

Perubahan pesat dalam aliran globalisasi menuntut pengeluar untuk meningkatkan kualiti, kemampuan perkhidmatan dan menjadi serba boleh, agar tetap kompetitif dalam industri pembuatan. Secara amnya, industri pembuatan di Malaysia dijangka berkembang untuk terus relevan dan bersaing dalam persekitaran yang kompetitif ini. Sebagai ganjarannya, Malaysia kemungkinan akan mendapat keuntungan dari tren ini, walaupun permintaan domestik yang kuat dan permintaan luaran yang menarik mendorong pertumbuhan pelaburan semasa pemulihan yang pesat di negara maju dan prospek pertumbuhan yang lebih cepat di negara ini. Tambahan pula, inovasi telah terbukti menambahkan kelebihan dan menyumbang kepada kejayaan sebuah syarikat. Sementara itu, pengeluar perlu memahami dengan jelas orientasi pasaran mereka melalui keperluan dan kehendak pelanggan mereka, strategi pesaing dan juga menghasilkan prestasi syarikat yang cemerlang. Justeru, kajian ini bertujuan untuk mengkaji kesan orientasi dan inovasi pasaran terhadap prestasi perusahaan di sektor pembuatan di Malaysia. Selain itu, penyelidik juga memutuskan untuk mengkaji kesan inovasi sebagai penyederhana terhadap hubungan orientasi pasaran dan prestasi syarikat. Literatur yang luas menunjukkan bahawa orientasi pasaran terdiri dari konsep budaya dan tingkah laku, serta melalui pengukuran MKTOR dan MARKOR, orientasi pelanggan, orientasi pesaing, koordinasi antara fungsi, penjanaan kecerdasan, penyebaran kepintaran dan tindak balas organisasi di kenal pasti sebagai pemboleh ubah bebas. Pada masa yang sama, prestasi syarikat dipilih sebagai pemboleh ubah bersandar. Bagi memenuhi objektif penyelidikan, kajian ini menggunakan kaedah kuantitatif dengan melakukan pengukuran penyelidikan tinjauan yang dikendalikan sendiri dan pensampelan rawak berstrata kepada 321 pengeluar. Penyebaran soal selidik dilakukan dengan serahan tangan dan melalui kaedah elektronik. Kaedah yang sama digunakan dalam pengumpulan data. Hasil dari korelasi, regresi berganda dan regresi hierarki telah dikenal pasti bahawa orientasi pasaran secara signifikan mempengaruhi prestasi syarikat. Komponen budaya sebagai elemen orientasi pasar menunjukkan hasil yang signifikan, walaupun elemen orientasi pasar yang lain, tingkah laku menunjukkan hasil yang tidak signifikan. Dimensi komponen budaya; orientasi pesaing dan koordinasi antara fungsi, menunjukkan hasil yang signifikan, sedangkan orientasi pelanggan dan tindakan kompetitif menunjukkan hasil yang tidak signifikan. Dimensi komponen tingkah laku, yang merupakan penjanaan kecerdasan dan penyebaran kecerdasan, mempengaruhi prestasi secara signifikan. Sementara itu, tindak balas organisasi menunjukkan kesan yang tidak signifikan. Sebaliknya, inovasi terbukti berkesan dalam mengurangkan kesan orientasi pasaran terhadap prestasi. Kajian ini menyumbang kepada pengetahuan dengan meneliti gabungan kedua-dua komponen orientasi pasaran yang merupakan aspek budaya dan tingkah laku dan juga peranan inovasi sebagai penyederhana. Kedua, ia melengkapkan teori orientasi pasaran mengenai hubungan antara inovasi dan prestasi. Kesimpulannya, kajian ini memberikan pemahaman yang lebih jelas mengenai orientasi pasaran dan inovasi yang diamalkan oleh pengeluar di Malaysia dan menawarkan beberapa implikasi untuk penyelidikan, pembuat dasar, dan pengamal industri.

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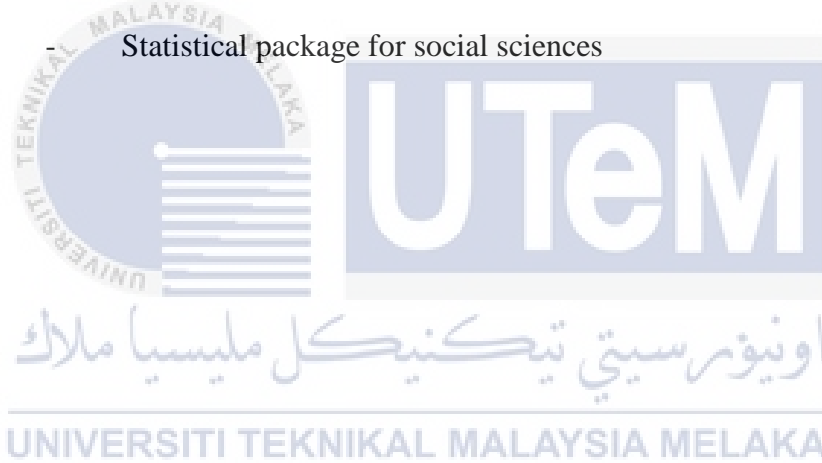
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LIST OF ABBREVIATIONS

| | | |
|------|---|--|
| EFA | - | Exploratory factor analysis |
| MIDA | - | Malaysian investment development authority |
| MO | - | Market orientation |
| PMI | - | Manufacturing purchasing managers' index |
| SME | - | Small and medium enterprises |
| SPSS | - | Statistical package for social sciences |



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CHAPTER 1

INTRODUCTION

The background of the study is presented in Chapter one. This chapter deals with the study's conceptual and contextual background, research problems, research questions, research objectives, research issues and the scope, as well as the importance of the study. It also underlines the need for more research on market orientation strategies in developing nations that can allow firms to remain competitive and be more profitable. In addition, the impact of market orientation on firm performance in the manufacturing sector is examined in this chapter. Finally, the organization of the thesis is presented at the end of this chapter.

1.1 Background

For nearly two hundred years, globalization has been regarded as a positive development, but it has been cost-effective and beneficial as innovation and modernization (Kobrin, 2020). Furthermore, Kusiak (2021) affirmed that globalization of the manufacturing, service industry increased the flow of materials, and goods, magnified dependency on the underlying network and made the industry more vulnerable to the changing market conditions. Industrialization places high demands on producers on customers to improve the efficiency, service flexibility and versatility of economic costs (Laosirihongthong and Dangayach, 2005; Prakash, 2019). Due to health competition at this time, manufacturing companies need to increase their knowledge with uncertainty in order

to make them more competitive on the market, fluctuating consumers and worldwide competition (Mathur et al., 2011). Productivity and versatility play a significant role in pursuing rapid development as a performance differentiator, delivering outstanding and growing product range to satisfy rapidly changing market potential.

Under the 11th Malaysia Plan, Malaysia's manufacturing sector continues to be crucial for sustainable growth, as it is aimed at achieving high-income nation status before 2020. Throughout Malaysia's economic transition, manufacturing has played a key role. Moreover, over the last decade, Malaysia became one of the fastest-growing developing countries that has attained effective growth in the manufacturing industry. In Malaysia, a highly diversified market, a strong manufacturing base, developed infrastructure and communication, constructive government policies, and a hard-working workforce continue to generate considerable investment in the manufacturing industry given the difficult economic climate. The Nikkei Malaysia Purchasing Manager Index in Manufacturing (PMI) grew from 49.9 in March 2021 to 53.9 in April, suggesting an increase in orders due to improved market demands (The Edge Market, 2021). The highest contributor to GDP comes from the manufacturing industry. Malaysia's manufacturing industry has served as one of the core contributors of the Malaysian economies at the moment (DOSM, 2019). Over the past five years, the manufacturing sector has contributed about 22% of GDP (MIDA, 2018). Industrialization in manufacturing has contributed to the thousands of job opportunities, investment and business opportunities.

For nearly two hundred years, globalization has been regarded as a positive development, but it has been cost-effective and beneficial as innovation and modernization (Kobrin, 2020). Furthermore, Kusiak (2021) affirmed that globalization of the manufacturing, service industry increased the flow of materials, and goods, magnified

dependency on the underlying network and made the industry more vulnerable to the changing market conditions. Industrialization places high demands on producers on customers to improve the efficiency, service flexibility and versatility of economic costs (Laosirihongthong and Dangayach, 2005; Prakash, 2019). Due to health competition at this time, manufacturing companies need to increase their knowledge with uncertainty in order to make them more competitive on the market, fluctuating consumers and worldwide competition (Mathur et al., 2011). Productivity and versatility play a significant role in pursuing rapid development as a performance differentiator, delivering outstanding and growing product range to satisfy rapidly changing market potential.

In addition, Mahidin (2020) reported in Monthly Manufacturing Statistics Malaysia that, as of December 2019, manufacturing revenues continued showing competitive productivity of 5.2 percent, rising to RM76.1 billion from RM72.3 billion last year. In Malaysia, manufacturing is has become an important industry, accounting for about 40 percent of gross domestic product (GDP) at the end of quarter 2019 (Mahidin, 2020b). Furthermore, exports in Malaysia showed sustainable growth in the long term and continue to grow, where the main component of export growth in manufactured goods currently accounts for more than 80% of Malaysia's total exports. For example, Berretta and Hall (2019) stated that the Manufacturing Risk Index 2019 maintained Malaysia's position as the most beneficial production region of choice for manufacturers. Malaysia is also classified first out of the greatest-nation investment survey from 80 nations, including Singapore, India, Thailand and Indonesia.

Nevertheless, comparing Malaysia to the industrially advanced countries such as Japan, the USA and the United Kingdom, the country is struggling to build its industry and lift the economic level in achieving the status of high-income economy and productivity

(The Edge, 2018). Similarly, with emerging economies such as China, Thailand, Indonesia and India, Malaysia's productivity growth is lower than in these countries. The manufacturing industry needs continuous transformation, according to Wellener (2020) of the Leading-Edge Alliance, as it needs to handle customer needs and a competitive environment with rapid and regular adjustments to maintain profitability and increase revenue.

Therefore, to remain competitive in the market, the fast-growing global manufacturing environment requires manufacturing firms to reassess their existing approaches and strategies. At the same time, active and productive manufacturers will open the door for increased productivity, job creation, creativity, highly skilled talent and eventually, economic prosperity and social welfare. Malaysia would be the main target of smart development globally and would draw more high-tech investments due to significant changes. Kusiak (2021) affirmed that due to the changing of market conditions, the manufacturing atmosphere, the service industry has increased in the complexity of the flow of materials, goods, magnified dependency on the underlying network, and made the industry more vulnerable. Following the ongoing challenge of organizations to maintain their competitive advantages due to rapid technological growth, a shift in expectations and requirements, and ever-growing rivalry, it has become difficult for the firm to maintain competitive advantages. It means that organizations must look for different approaches to be implemented and adapted (for example, innovation), with proved efficacy in achieving high production levels (Qasrawi et al., 2017; Yusr, 2017; Honarpour et al., 2017; Abdullahi and Bett, 2018; John et al., 2018; Jiménez et al., 2020).