Print ISSN: 2233-4165 / Online ISSN: 2233-5382
doi:http://dx.doi.org/10.13106/ijidb.2017.vol8.no1.23.

The Impact of Market Orientation Indices, Marketing Innovation, and Competitive Advantages on the Business Performance in Distributer Enterprises

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Received: January 31, 2017. Revised: March 10, 2017. Accepted: March 15, 2017.

Abstract

Purpose – Market orientation is a key factor for business performance in today's fluctuating conditions. This study investigates whether the employment of innovation can improve the innovative capability and increase the performance by gaining competitive advantages or not. Therefore, this study aims to investigate the effects of market orientation on the performance of small and medium size distributer enterprises (SMDEs) in Iran.
Research design, data, and methodology – Customer orientation, Competitor orientation, and Inter-functional coordination have been regarded as market orientation indices to determine the effects of these indices on marketing innovation, gaining competitive advantages, and companies' performance as well. Data were collected from managers and experts in SMDEs in Iran. The structural equations modeling are used for analysis.
Results – The results indicated that marketing innovation has been improved in competitive companies that enjoyed a high level of Inter-functional coordination among the various units. Besides, marketing innovation resulted in gaining competitive advantages regarding cost management, concentration, and differentiation in these companies. In addition, it was observed that SMDEs that obtain competitive advantages are equipped to reap superior performance.
Conclusions – With cost management, differentiation and concentration are more likely to enhance the enterprise efficiency and effectiveness than other companies. Additionally, competitiveness, inter-functional coordination, and marketing innovation in SMDEs have a positive impact on marketing innovation.

Keywords: Market Orientation, Marketing Innovation, Competitive Advantages, Business Performance, Distributer Enterprises.

JEL Classifications: M14, M31.

1. Introduction

1.1. Background

Today, the increasing change in technology, hardware and software, marketing knowledge, and even political conflicts among countries on one hand, and initiatives along with rapidity in business, on the other hand, resulted in different challenges to small and medium production companies. The main point to be taken into account by these companies is that how these companies manage to follow their basic goals (survival, growth, and profitability) in various stages of their lifetime. Like the other economic sectors of the country, the success of these companies depends on some influential and determining factors that must be examined critically in order to know them. In fact, the companies that are able to use available resources and tools, especially those designed to be used in marketing, may succeed to provide the necessary conditions to control this unstable situation. Accordingly, marketing continuously plays it role in companies in a sophisticated manner and, thus, adopts a more sensitive position in a company. The term "marking orientation" has been used been used for realizing the concept of "marketing" (Kohli & Jasworski, 1990).

The findings of different studies indicate that market orientation leads to a positive performance in business (Naidoo, 2010). All the researchers working on market orientation believe that market orientations involve something beyond customers. Market orientation can be defined as one of the steps of the organizational prosperity and growth pr as a level reflecting organizational maturity. Kohli and Jasworski (1993) suggested that market orientation is more

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imperative in competitive conditions. It is likely that an organization has a satisfactory performance in a noncompetitive environment, even if the organization is not marketing oriented, as the customers have been accustomed to products and services offered by the company. However, in competitive conditions, more alternatives are available to customers to satisfy their needs and wants. As a result, the companies that are not marketing oriented lose their customers quickly. Those managers are successful who are able to match up the organization (p.2, para1) to the present conditions. This coordination is possible only in the case that all the company's sections adopt market orientation as a vision (Sin et al., 2005) so competitive advantages arise from innovation that exists in business models. Based on a pragmatic approach it can be said that on of the characteristics of a competitive and up-to-date business is the use of innovation in the market.

This study, focusing on the production of small and medium production companies in Markazi Province, investigates whether the employment of innovation by small and medium production companies can improve the innovative capability of these companies and increase their performance by gaining competitive advantages or not. Therefore, the present study seeks to answer the following questions:

Can Customer orientation, competition, and cooperation among the company's different operational units as market orientation indices lead to business innovation and gaining competitive advantages to improve the company's performance?

Does the employment of market orientation strategy by small and medium production companies assure their efficiency and effectiveness in current competitive situation?

2. Market Orientation

The concept of market orientation was first introduced in the 1950's. But since the 1980's, it has undergone a remarkable development and in recent years and a lot of efforts have been made to conceptualize and operationalize the concept (Agrawal et al., 2003). According to Anssov, after world war the emergence of market orientation two came to a climax along with the saturation of consumption markets (Chiquan, 2002).

Different definitions have been already developed for the concept of market orientation. According to Narver and Slater (1990) market orientation is an organizational culture which controls personal behaviors most efficiently to create more insights for customers and, therefore, it is imperative for the improvement of the company's business performance (Narver & Slater, 1990). Narver and Slater (1990) examine market orientation from a cultural perspective which includes three dimensions: Customer orientation, competition, and Inter-functional coordination (Narver & Slater, 1990).

Kohli and Jasworski (1993) have adopted a behavioral view towards market orientation and have included the components of information production, information disclosure, and response to the compiled information in the entire organization Kohli and Jasworski (1990). Shapiro and Glazer believes that operational market orientation is an organizational decision making process. Management is committed itself to make market orientation decisions in the center of this process (Shapiro, 1988). Ruekert (1992) suggested that market orientation consists of three components: a) creating a database for customers and the market based on organizational objectives, b) designing some strategies to focus on customers and the market, c) implementing strategies related to customers and the market (Ruekert, 1992). Dashpande et al. (1993), Farley, and Webster (1993) have regarded market orientation as a set of beliefs focused upon by customers to make it possible for the company to make long run profits in which customers are preferred to other individuals. However, this does not imply to disregard the company's owners, managers, and employees Deshpande et al. (1993). Day (1994) suggested that market orientation involves advanced and eminent skills to understand and satisfy customers' needs and wants Day and Wensley (1988).

Kolter (2000) considered market orientation as the final step in organizational development in which the market orientation has been grown in line with various business orientations. Market orientation has been developed based on marketing ideas as a philosophical foundation for market orientation. However, the idea of market orientation is not a satisfactory philosophical basis. Because in market orientation, the focus in not only on customers but also on competitors, different organizational issues, and various external factors that influence customers' needs and preferences (Kook, 2002).

In this study, Customer orientation, Competitor orientation, and Inter-functional coordination were considered as market orientation dimensions based on Narver's and Slater's views on investigating the effects of the above mentioned factors on small and medium companies based on the role of marketing innovation and competitive advantages.

2.1. Customer Orientation

Narver and Slater(1990) have stated that Customer orientation means a thorough understanding of the target buyers in order to create better values (better products and services) for customers. Customer orientation is a central factor of market orientation. Because customer orientation places the highest priority on continuously finding ways to provide superior customer value, an increased commitment to customer orientation should result in increased boundary-spanning activity. A customer-oriented business might work toward establishing long-term relationships with customers by incorporating client inputs into an effective strategy or training its personnel and customizing its systems to accommodate customers' changing needs in specific ways. Therefore, customer orientation should be positively correlated with relationship-specific adaptations. Seragra and Stephen have defined Customer orientation as the needed activity to collect and publicize customer-related information.

Deshpande et al. (1993) suggested that market orientation is in fact the same as Customer orientation and the latter is preferred to the former. Stephan and Farley believe that Customer orientation is the main element of market orientation. The employees allocate much more time to customers in a market oriented business and look for new ways to satisfy customers' needs. George Cocks (2000) stated that companies should pay more attention to Customer orientation than before, due to the fact that not the term Customer orientation is an appealing term but that Customer orientation is regarded a requirement for all companies. Closer tailoring of products and services based on the understanding of customers' needs is necessary for serving current customers well, whereas flexibility is necessary for the enterprises to explore potential customers and extricate itself from current commitments (Danneels, 2003). It may strategically manage customer relationships by delivering customer value and thus build customer loyalty while remaining focused on serving its targeted potential markets (Gounaris, Avlonitis, & Papastathopoulou, 2004). Today, business encounters more competition than in the past. Therefore, the focus of international business is on the continual creation of value for customers. A business is regarded market-oriented/market oriented only when its culture systematically creates expected values for its customers. All the research don Customer orientation shows a strong relationship between Customer orientation, profitability, customers' maintenance, increased sale, and the success of the new products.

2.2. Competitor Orientation

Competitor orientation means the organization's knowledge of competitors' current and future strengths and weaknesses and related to their long term technologies. Market-oriented enterprises must consider not only how well its products suit customer needs but how well it performs relative to its competitors. Flint and Mentzer (2000) reveal that changes in customers' values often occur because of their exposure to competing products and services. This attitude has driven marketing strategy to focus on competitors. A competitor orientation essentially entails gathering intelligence on the short-or long-term strengths, weaknesses, capabilities, and strategies of competitors (Narver & Slater, 1990) and continuously paying attention to their relative attractiveness from the perspective of target customers (Slater & Narver, 1994). When suppliers can react to customers' needs better than their competitors can, they may retain key customers (Flint et al., 2002). Ziyorb and Gottingen believe that competitiveness refers to ability and the request for identification, analysis, and reaction to customers' needs. They stated that companies that develop competitiveness are able to analyze their competitors' strengths and weaknesses efficiently and react to them properly. Kanswaran and Stephen suggested that competitiveness attempts to collect and disclose information related to market-oriented company's rivals. Competitiveness as a part of a total activity should be spent on additional resources. If a company wants to become entirely competitive, it must tolerate some losses in its income. The findings of the research also show some benefits for those companies whose level of competitiveness varies from medium to high (Singh & Ranchood, 2004).

It is obvious that prior to adopting a competitive strategy, managers should analyze gains and losses (for instance, by evaluating available products and services, collecting the industry's information through informal tools, seeking new opportunities to access competitive advantages, appointing some marketers to work in the form of product development groups). But it should be noted that the real profitability is achieved only in long run.

The success of a company is not only dependent on the identification of customers' needs but also on the ability to be assured those customers' opinions about responses given by the company to their needs are higher that those of the rivals. Any company, whether market-oriented, competitive, or concentrating, should adopt a competitive marketing policy so that to strengthen the company's position against its rivals. The company should also match its policies with continually changing conditions.

2.3. Inter-functional Coordination

Narver and Slater has emphasized employees' role in market orientation development and suggested that all employees have the potential to give value to customers and that Inter-functional coordination is required to achieve this objective. In fact, Inter-functional coordination means harmonized use of organizational resources to offer better values to customers (Narver & Slater, 1990). Customer needs may change in so many ways that all departments have the obligation and responsibility to be involved in the customer relationship (Flint & Mentzer, 2000). When the functions are integrated across departments in an organization, problem-solving capabilities potentially are enhanced and responsiveness to customers is increased by employees that work toward a common goal.

All employees have the potential to create value for customers. Harmonized combination of organizational resources can link Customer orientation to competitiveness. Information cooperation generally refers to disclosure of information about customers and competitors among all individuals and various organizational sectors to create correct insights about customers' needs and wants and to make a plan to win the competition. When the personnel perceive that all departments and individuals in their enterprises work toward a common goal, the role ambiguity for employees decreases, particularly in terms of how much effort they must exert to meet customer needs (Autry, Griffis, Goldsby, & Bobbitt, 2005). Therefore, the greater the integration among departments, the more the enterprises adapts specifically to current customer needs. In addition, a positive level of interdepartmental connectedness coordination allows for the early and quick exchange of market information, and these interactions can facilitate the early definition of market requirements and enhance the enterprise's flexibility in delivering these requirements (Menon, Jaworski, & Kohli, 1997).

2.3.1. Marketing innovation

Different definitions have been suggested for innovation. Shochini first introduced innovation in the form of scientific notion. Innovation is the process of obtaining creative ideas and turning them into new products, services, and methods. Different categories have been developed for innovation based on functions and levels under investigation (Naidoo, 2010). Most of the studies on various aspects of innovation offer various definitions for innovation. Innovation has been classified as radical, incremental, imitative, and recovering, transformational, technological, organizational, and marketing innovations. Innovation has been classified as radical and incremental based on its degree of tradability. Radical innovation refers to new changes in products, processes, or organizational structures. An innovation which usually leads to a new knowledge or is used in new technologies is considered as radical innovation. Incremental innovation, on the other hand, has been defined as basic changes in products or existing structures (Naidoo, 2010). This concept is closely related to continuous development. In other words, any change in the status quo leading to a new application is called incremental innovation. If innovation is developed based on market forces is regarded as incremental and if it is based on technological tensions is considered as radical.

Marketing innovation consists of creativity and innovation in strategies, approaches, and methods used for the organization’s product marketing. Marketing innovation includes various management aspects (such as market knowledge, advertisement, controlling the market ...). Most of the marketing innovations arise from incremental innovative activities. Marketing innovation involves the introduction of a new trademark, taking over a new market, and adopting new sales approaches (Agrawal et al., 2003).

2.3.2. Competitive advantages

All the employees’ knowledge, experience, skills, and commitments and the relationships among them and their contacts s et al., 2007) which encompass a set of factors or skills that make it possible for the with the organization’s outside borders are regarded as competitive advantages (Panigyrakicompany to have a better performance than the other competitors. According to Day and Wensley (1998) and Hunt and Morgan (1995), enterprises that obtain positional advantages are equipped to reap superior performance (Panigyrakis et al., 2007). According to Porker, a company can enjoy competitive advantages via three different approaches:

- differentiation
- cost management
- concentration

Competitive advantages based on differentiation

Access to this advantage means that a product produced by a company is regarded by consumers and stockholders as having one or more important, distinctive, and unique characteristics. Differentiation can be seen as distribution system, marketing, product image, product specifications, sale, and .... Day and Wensley (1988). The source of competitive advantage is the creation of superior value for consumers. Its achievement is primarily based on a differentiation strategy (Kumar, Submaranian, & Strandholm, 2002; Narver & Slater, 1990, 1998; Va´zquez, Santos & A´lvarez, 2001).

Competitive advantages based on cost management

This advantage aims to win competitions through producing a product by using a minimum cost, compared to costs used by other competitors. To this end, the method proposed by Michael Porter consists of mass production with a lower price which is called Economy of Scale. Alberts (1998) emphasizes the imperative that low-cost strategies must be embedded in a context that values volition, imagination, and drive.

Competitive advantages based on concentration

The resource concentration is possible by limiting the scope of activities which results in achieving a competitive advantage against other competitors (Agrawal et al., 2003). To gain this competitive advantage, the company can concentrate on given products, customers or industries.

2.4. Market Orientation and Business Performance

Performance is actual and measurable results of an activity. Studies using a wide variety of dependent measures of business performance have found a positive relationship between market orientation and business performance. At the same time, several studies did not support a direct positive relationship between performance and market orientation (Han et al., 1998; Jaworski & Kohli, 1993). Research on the relationship between market orientation and performance had produced mixed results (Voss & Voss, 2000). Avlonitis and Gounaris (1997) found a positive relationship between marketing orientation and company performance using profit, sales volume and market share as measures. Guo (2002) tested the relationship between market orientation and business performance as measured by service quality. Hult, Tomas, Ketchen and Slater (2005), used ROI, ROA and ROE as measures, while Dobni and Luffman (2003) also used ROI. Kyriakopoulos, Meulenberg and Nilsson, in their research about the role of culture on market orientation and performance, used profit margin, growth and market share (Kyriakopoulos, Meulenberg, & Nilsson, 2004). Meanwhile, Lin and Germain (2003) used growth relative to the industry as a measure of performance in a study of Chinese state-owned enterprises. Several other studies, including Sin, Tse, Yau, Lee, and Chow (2002), Carmen Camarero Izquierdo and Jesu´s Gutie´rrez Cilla´n, 2005 and Fynes et al.(2005) have used different measures of business performance. Haugland et al. (2011) research on the relationship between market orientation and performance in the service industry. Ruokonen (2008) tested the relationship between market orientation and product strategies in small internationalizing software company's .Wei and Atuahene-Gima (2009) measures direct effects of market orientation on new product performance. Naidoo (2010) measures firm performance concerning the firm's ability to survive in the industry. This study measures firm performance concerning the efficiency and effectiveness. Efficiency and effectiveness can be considered to constitute two rather distinct dimensions of performance. Efficiency is concerned with achieving given results with minimum resources, and effectiveness with attaining enterprises objectives.

2.5. Small and Medium Size Enterprises (SMDEs)

The literature on business in small units is very extensive. This extension has lead to different definitions of the unit in various countries. These definitions differ based on age, demographic, cultural structures and the level of development. Small and medium production companies are very similar in different countries. But it is not possible to propose the same definition for these companies. In each country, a definition has been developed based on the country's special conditions. Most of these definitions are offered based on quantitative criteria such as the number of employees and the company's cash flow Deshpande et al. (1993).

2.6. Hypotheses Development

The results of various studies indicate that market orientation leads to a positive business performance Naidoo (2010). Pelham (2000) observed that market oriented production companies had a better performance that the other companies, since they reacted quickly to customers' negative feedback and various competitive activities. Although Customer orientation and competitiveness are essential for a good performance, they are not by themselves sufficient. Dusen Hatch (2005) has emphasized rapport among employees and stated that the success of production companies depends on consensus in the entire company which is achieved by employees' open communication, their solidarity, and power.

Based on the above literature, the first three hypotheses are developed as follows:

<H1> Customer orientation has a positive impact on marketing innovation in SMDEs.

<H2> Competitor orientation has a positive impact on marketing innovation in SMDEs.

<H3> Inter-functional coordination has a positive impact on marketing innovation in SMDEs.

Dracker has emphasized that every organization needs a basic capability or skill which is called innovation. Today, innovation is regarded as the main factor for survival in competitions. Market orientation and innovation are intrinsically dependent on each other Naidoo (2010).

Porter and Stern have stated that companies should be able to create a flow of new products and processes in order to use more technologies and to take some steps to survive in competitions. Kerensky and Jancksez discuss the use of creativity and innovation to breach the rules and to gain the rivals' advantages. Hamel (1998) believes that key competitive advantage is obtained by innovation in business model.

Valpert (2002) has emphasized that companies should look at innovation as a natural business element and speed up and exchange the innovations by independent interventions and intermediations.

Shomitter (1950) was among the first researchers who suggested that innovation assists companies to maintain the value of their assets, otherwise outworn under economic dynamics.

Harley and Halt (1998) believe that innovation is a factor that can modify the relationships between market orientation and the company's performance.

Sherer(1988) points out that small and medium production companies are more creative in the field of innovation than the bigger companies. The relative innovation advantages of these companies are their flexibility and speed of reaction compared to those of big companies. As a result, small and medium production companies play a valuable economic and social role due to their innovative capacity.

<H4> Marketing innovation in SMDEs has a positive impact on gaining competitive advantages.

In the most studies on strategic management, competitive advantage is seen as a determining factor for a superior performance(Pelham, 1997). Ma (2000) and Kuf (1999) have concluded that competitive advantage may lead to a better performance in the company. However, the majority of the studies show that competitive advantage is a strategy used to create value which leads to a better performance in the company.

Jyh-Jeng (2004) has illustrated the relationship between market orientation and performance by employing strategies suggested by Kotler (2000).

Naidoo (2010) found out that gaining competitive advantages based on differentiation, concentration, and cost management leads to a better performance in production companies (Naidoo, 2010).

<H5> Gaining competitive advantages has a positive impact on the efficiency of SMDEs.

<H6> Gaining competitive advantages based on concentration has a positive impact on the effectiveness of SMDEs.

2.7. Conceptual Model

The marketing model has been divided into three models: 1- Models that directly examine the relationship between market orientation and business performance. 2- Models that examine the relationship between market orientation and business performance by using modifying variables. 3- Models that examine the relationship between market orientation and business performance by using intermediary variables (Panigyrakis et al., 2007).

The model (See Figure 1) consists of three categories of variables as follows:

- Independent variables represented by market orientation indices
- Modifying variables that consist of marketing innovation and competitive advantages
- Dependent variables that consist of business performance

3. Methodology

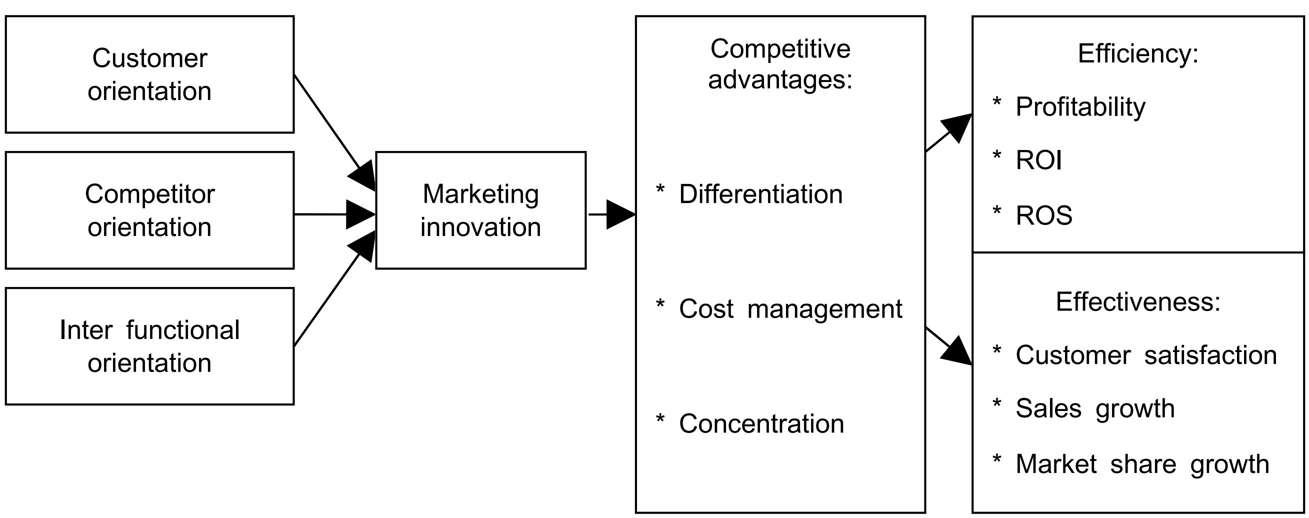
For data collection a questionnaire has been used and it included 34 items. The questionnaire was provided from Naidoo (2010). The samples included managers in small and medium sized distributers companies in Markazi Province of Iran, among whom a sample including 480 managers and experts, 340 questionnaires were distributed and 295 of which were returned, while 280 questionnaires were used for subsequent data analysis.

For reliability the α was determined for the questionnaire as shown in <Table 1>:

<Table 1> α coefficient

No.	Measured structures	Item no.	α
1	Customer orientation	1-6	0.904
2	Competitiveness	7-11	0.921
3	Inter-task coordination	12-16	0.819
4	Marketing innovation	17-22	0.806
5	Competitive advantages	23-28	0.793
6	Performance (Efficiency)	29-31	0.701
7	Performance (Effectiveness)	32-34	0.721
8	Total		0.910

Based on <Table 1> questionnaire is reliable.



<Figure 1> Conceptual Model

4. Results

Data analysis included 2 steps: 1-determining the fitness of the model. 2- Testing the hypotheses respectively.

Fitness of the model : Fitness index was computed by structural equations and LISREL software. As <Table 2> shows the model's fitness was acceptable.

<Table 2> Fitness indices

Index	The results of fitness test
The estimated square of error variance approximation RMSEA	0.07 This index for is equal to 0.05 or less. The higher values to 0.08 show a rational error for approximation in the population. The model with an index lower than 0.10 have a weak fitness
X^2/DF	Schumacher and Lumex (2009: 85) accepted values of 1 to 5, Carmines and Mc Iver (1981: 80) accepted values of 2 to 3, Clien (2005) accepted values of 1 to 3
ECV1	5.61 Since the value is less than saturation model (6.40), it shows a high level of fitness in the model and indicates a sensible approximation in the population.

The total results obtained through testing the hypothesis are presented in <Table 3>.

<Table 3> Results of tests of hypotheses

Hypotheses	Coefficient	T statistics	Results
Customer orientation has a negative impact on marketing innovation in SMDEs.	-0.21	-3.11	Reject
Competitiveness has a positive impact on marketing innovation in SMDEs.	0.20	3.1	Accepted
Inter-functional coordination has a positive impact on innovation in SMDEs.	0.74	6.67	Accepted
Marketing innovation in SMDEs has a positive effect on gaining competitive advantages.	0.80	7.23	Accepted
Gaining competitive advantages has a positive effect on the efficiency in SMDEs.	0.79	7.09	Accepted
Gaining competitive advantages has a positive effect on the effectiveness in SMDEs.	0.77	6.7	Accepted

5. Conclusions

Customer orientation has a negative impact on marketing innovation in SMDEs. This study was done in the field of industrial marketing. The companies studied included SMDEs distributes goods and spare parts from big companies based on a determined plan and order. It can be concluded that small and medium production companies cannot improve their marketing innovations merely by Customer orientation and attention to the industrial buyers' wants. In a similar study done by Naidoo (2010) on Chinese companies the same result was obtained. Naidoo points out to the buyers' habitual behaviors. Industrial buyers prefer to buy products that they are completely familiar with. It can be also said that industrial customers observe a high level of conservatism in their purchases so that new products are hardly accepted by them through repeated justification sessions. Therefore, SMEs whose survival is dependent on customers' satisfaction prefer to make products according to the customers' taste. Christiansen (1997) in his book "The challenge of innovation" has written "The companies that have been managed properly are not able to develop innovation. Because they are generally involved in the existing and a potential markets that have been selected as the target market. Since Customer orientation is only one dimension of marketing investigated in this study, we can regard Customer orientation as a planned safeguard to cope with extreme tendency to innovation and risk taking.

Competitiveness has a positive impact on marketing innovation in SMDEs. The exits of competitiveness culture in SMDEs facilitate marketing innovation in these companies. The companies that develop competitiveness are able to analyze efficiently their rival's weaknesses and strengths and react to them. They utilize their mixed marketing innovation to show reaction to their rivals. The same results was obtained by Naidoo (2010) and the research done by Graval and Tansuhaj (2001) in western European and north American companies.

Inter-functional coordination has a positive impact on marketing innovation in SMDEs. The findings of the study show that SMDEs get more benefits by coordinating their activities in several functions and they are able to respond better to the market requirements through marketing innovation. The growth of this idea in the company that all employees have the potential to create value for customers can lead to marketing innovation fulfillment which is in line with Naidoo (2010).

Marketing innovation in SMDEs has a positive effect on gaining competitive advantages. Marketing innovation can result in competitive advantages and capabilities. SMDEs can differentiate their products, advertisements, pricing methods through marketing mix. The SMDEs often suffering from limited resources can reduce their costs and gain competitive advantages against their competitors through marketing innovation which is considered as an important achievement for these companies. The SMDEs can reduce their costs by bringing innovation in their services via reducing transportation and inventories, conducting time measuring programs, and utilizing learning curves. They also can concentrate on special products for special customers with special prices by their mixed marketing innovation and gain competitive advantages against their competitors which are in line with Naidoo (2010) and the research done by Graval and Tansuhaj (2001).

Gaining competitive advantages based on cost management, concentration and differentiation have a positive effect on the efficiency in SMDEs. The results presented in Table 4 indicate that the hypothesis is accepted. As mentioned previously, gaining competitive advantage by SMDEs that are suffering from limited resources is considered as an important advantage. The SMDEs reduce costs associated with production by reducing the amount of wasted materials, conducting time measuring programs, and using learning curves to take a long stride for their profitability and return on investments and return on sales, thus improving their performance which are in line with Vorhies and Morgan (2003).

Gaining competitive advantages based on cost management, concentration and differentiation have a positive effect on the effectiveness in SMDEs. Companies' sustainability depends on satisfied customers. Therefore, all the resources must be utilized to understand customers' real needs and the ways to satisfy them. Small and medium sized firms gain competitive advantages against other competitors by increase market share growth, sales growth and profit growth to those of other companies which are in line with Vorhies and Morgan (2003); and the research done by Walker and Ruekert (1987).

6. Recommendations

The findings of the study indicate that small and medium sized companies can improve their business performance by taking into account the following points:

- Market orientation is not beneficial for companies that want to develop innovation culture, if market orientation is looked upon from a Customer orientation viewpoint as was the case in traditional marketing. Market orientation merely focusing on Customer orientation is related to producers who act based on market taste and wants which can not improve marketing innovation for these companies. The findings of the study also indicate that competitiveness and intra task coordination in all the company's units enable small and medium sized production companies to focus on the market's current needs and wants and at the same time try to create new wants and change the market taste which eventually leads to innovation fulfillment in these companies.
- The companies should be always mindful of new changes in the market and improve their performance by adopting innovative approaches, especially in marketing if they want to survive.
- The companies under investigation in this study comprised small and medium sized companies often satisfying big companies' needs. Small and medium sized companies have unique features regarding the rate and the steps of development. These features do not differentiate on useful marketing methods employed by the company from conventional marketing methods but also confront the company with some restrictions. In addition to limitations of resources in Iran's economic conditions, these companies also face the limited impact on the market. As a result, market orientation in small and medium sized production companies is influenced by the above mentioned limitations and adapted to norms produced by limitations. Small and medium sized production companies can improve their performance and guarantee their survival by differentiating their products form those of other competitors and the savings arising from the scale and the employment of learning curves.

7. Limitation and Future Research

- The indirect effects of market orientation indices on the performance of small and medium sized companies producing spare parts and materials in Markazi Province were examined in the present study. Other researchers are recommended to conduct this study on big companies and compare the obtained results with those obtained form small and big companies.
- This study was conducted in the field of industrial marketing and examined industrial buyers' behavior to investigate Customer orientation. It is suggested that future studies focus on consumption marketing, as well.
- It is possible to study market orientation in an international level and examine market orientation indices on export companies and also investigate the effects of different cultures on companies' market orientation aspects.
- In this study, Customer orientation, competitiveness, and Inter-functional coordination as market orientation indices were investigated based on Narver and Slater (1990). Future studies can use other indices mentioned in the literature.
- There is little research on marketing innovation, as a subset of innovation in international and domestic level. It is believed that further research is needed in these areas.
- In the present study, marketing innovation and competitive advantages were used as modifying variables. Other variables can be used to examine the effects of market orientation on companies' performance to determine the effects of market orientation indices on these variables,

as well, the effects of the variables on companies' performance.

- The present study examined the companies' performance regarding their ability to survive in related industries. It is also possible to examine the effects of other elements such as financial performance, market performance, profitability ... on companies' performance.

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