

# MARKET ORIENTATION, INNOVATIVE CAPABILITY AND FIRMS PERFORMANCE: A STUDY OF THE NIGERIA MANUFACTURING FIRMS

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## ABSTRACT

*This study investigates the relationship between market orientation, innovative capability and firm's performance in the Nigeria manufacturing firms. We explore whether firms do and how they articulate and influence the roles/activities of individual market orientation and innovative capability in achieving superior performance. Despite the important roles played by Nigeria manufacturing firms in delivering process, their performance has not been impressive due to the orientation of their customers and generating new ideas and knowledge. A survey method was used to generate data from employees working in various manufacturing firms. A simple and stratified sampling technique was employed to determine the sample size selected for the study. Primary data were collected from 50 companies by through 600 questionnaires to employees working in Nigeria manufacturing firms. Responses from the survey were statistically analyzed using descriptive statistics, Pearson Product Moment Correlation coefficient (PPMCC), and regression analysis. The results of the study confirms that a significant relationship exist between market orientation, innovative capability and firm's performance in the Nigeria manufacturing firms.*

**Keywords: Market Orientation, Innovative Capability, Firm's Performance**

## 1.0 INTRODUCTION

Market orientation can be defined as a form of organizational culture where employees are committed to continuously creating superior customer value, or as a sequence of marketing activities that lead to better performance. Existing research findings have concluded that market oriented companies perform better than companies that are less market oriented. The oriented companies focus on adapting their products and services to the needs and expectations of their customers instead of those who are product oriented and focus on developing a product or service that is then marketed and hopefully sold (Gronroos, 2006).

To achieve this customer focus, a firm with a high degree of market orientation cultivates a set of shared values and beliefs about putting the customer first and reaps results in form of a defensible competitive advantage, decreased costs and increased profits (Desphandé, 1999).

Nowadays, the environment is dynamic, changeable, and essential, as soon as the competition is intensive. These circumstances and many others compel the organizations to adopt certain business concepts, policies, and practices in order to attain their goals and to get prominent results. Among those business concepts is market orientation.

Market orientation is a construct to generate new ideas and motivation in order to react to the environment and enhance innovativeness (Hurley and Hult, 1998). Kohli and Jaworski (1990) distinguished between marketing concept as a business philosophy, and market orientation as the actual implementation and application of the marketing concept. That was a starting point for market orientation (customer is the primary focus of market orientation). The cultural perspective (Narver and Slater, 1990) and the behavioral perspective (Kohli and Jaworski, 1990) are the most widely discussed views in the field of market orientation. Research directly designed to compare and contrast market orientation concepts in service firms with that in manufacturing firms are scarce.

Innovation is anything which might be an idea, practice, activity, or object that is perceived as new to an individual, organization, or any other unit of adoption (Fruhling and Siau, 2007; Hsu, 2006). Recent studies indicated that product innovation, service innovation, process innovation, marketing innovation and administrative innovation are the most widely studied innovation capabilities (Lin et al., 2010). Among that classification is service innovation, which is the process of developing new services that will be perceived as new (never seen before), as well as are useful and gainful to specific central customer (Flint et al., 2005; Grant, 1991).

The rest of this article proceeds as follows: Section two reviewed the relevant literature on market orientation and innovative capability. The specific methodology adopted for carrying out our research is subsequently explained. Section four formulates research hypotheses to test the effect of market orientation, innovative capability and firm's performance, followed by the analysis of data and presentation of the findings with regard to each of the hypothesis tested. The final section derived the study's conclusions, raised managerial and public policy implications, and suggest future research directions.

## **2.0 LITERATURE REVIEW**

### **2.1 MARKET ORIENTATION, INNOVATION AND THE ENVIRONMENT**

Organizations are living in a dynamic environment in which they experience accelerated changes, intensive competition and powerful external and internal forces. In such circumstances, survival is conditioned upon knowledge, experience, technology, creativity, qualified human resources, innovation, and many other capabilities (Laforet and Tann, 2006). Customer orientation and innovation, specifically, is one of the major factors that may enhance organizations position, since customer orientation and innovations permit firms to have a dominant competitive positions, and grants new entrant a unique opportunity to gain an edge in the market place. The idea is how organization or firm orientate their customer and generate new ideas and motivation in order to respond to the environment and promote innovativeness among various firm.

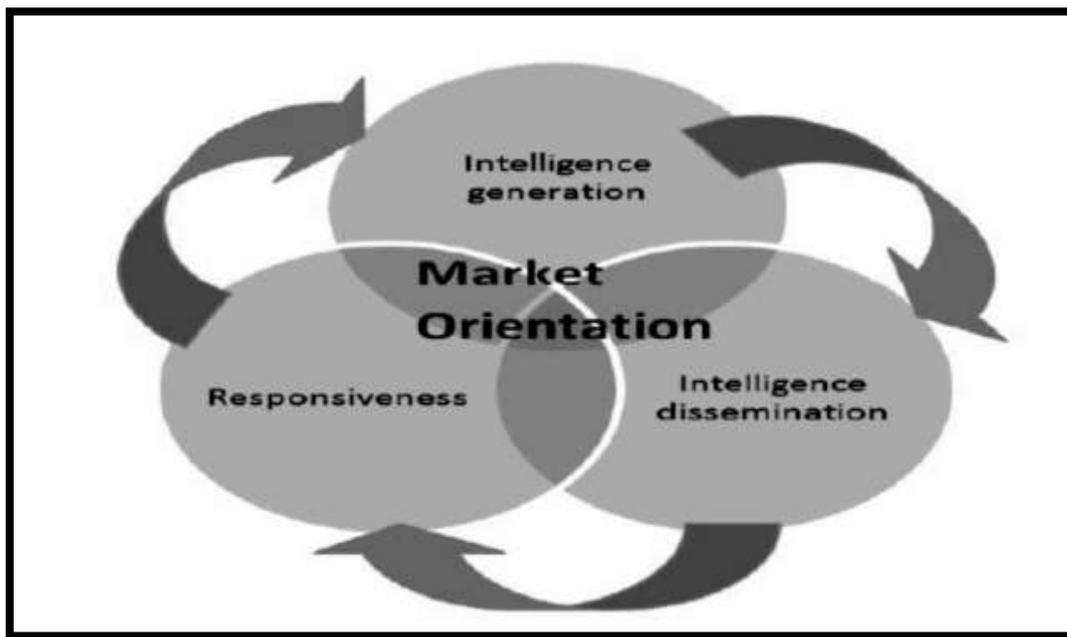
Customer orientation refers to firm's understanding of the target customers adequately to create superior value for customer (Narver and Slater, 1990) while a customer oriented firm can be

defined as a firm that has an ability to define, analyze, understand customer wants and response to these wants (Gatignon and Xuereb, 1997; Zhang and Doll, 2001).

Competitor orientation can be defined as ability of firm to define, analyse competitors' activities and to response to them (Gatignon and Xuereb, 1997). In other words, it means that firms understand the strong and weak sides of competitors in short-term, and capabilities and strategies of current and potential competitor in long-term (Narver and Slater, 1990). It consists of understanding and following competitors' products and processes that could change the competition power of current products (Mavondo, 2000).

Inter-functional co-ordination is an efficient factor in coordinating several department within a firm, to inform all department about customer needs and to be responsive to customers (Kohli and Jaworski, 1990). Market orientation is not the responsibility of a single department, that is marketing, it comprises all functional areas within a firm. Inter-functional co-ordination is the integration and usage of firm resources coordinately to create a superior value to the target customers. This binds customer orientation to competitor orientation (Narver and Slater, 1990).

**Figure I**



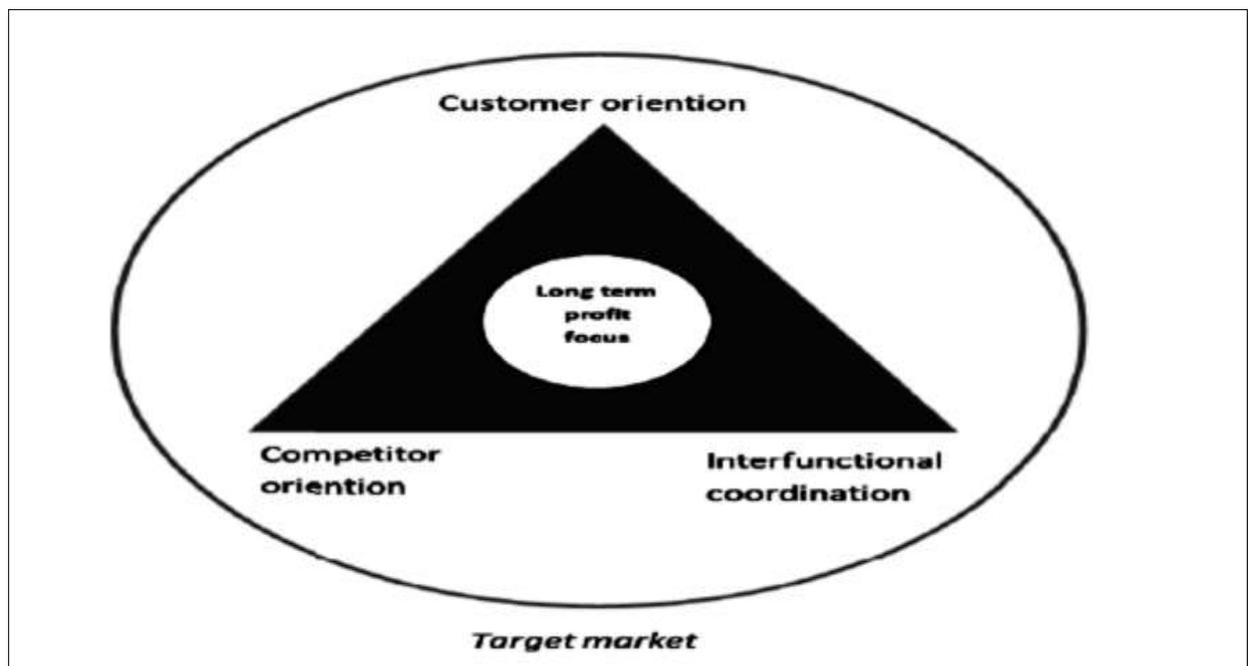
**Source:** Adapted from Narver and Slater, 1990. The effect of a market orientation on business profitability. *Journal of Marketing*, 54(4), 20-36.

According to Baker and Sinkula (1999), market orientation is necessary and important factor for optimal organizational culture and it is necessary and sufficient for constitution of an optimal environment related to innovation. But it is not sufficient alone for that innovation to achieve success. A market-oriented culture, as a part of organizational culture, supports openness to innovations and innovative ideas. If a firm has available resources, innovativeness of the organizational culture will be facilitated.

Firms that have high innovative capability will be more successful to develop new capabilities that will cause response to environment, competitive advantage and high performance (Hurley and Hult, 1998). Market orientation is being responsive with innovative marketing programs and innovative strategies to changing customer needs. Therefore, market orientation can be seen as continual innovative behaviour (Kohli and Jaworski, 1990). It is being better and different from competitors, also this is usually carried out by aid of innovation (Liu, 1995). Atuahene-Gima (1996) discussed selection of new product projects required attention to external and internal factors, and market orientation caused better understanding of firm's internal capability that facilitate the selection of new product projects. Hunt and Morgan (1995) referred to a similar point by discussing that market orientation increases knowledge about external environment, and in this way, it increases own knowledge of the firm (Atuahene-Gima and Ko, 2001).

Narver and Slater (1990), defined market orientation as three behavioral components, customer orientation, competitor orientation, and inter-functional coordination, and two decision criteria, long-term focus and profitability. They viewed market orientation as an organization culture. Narver and Slater argued that market-oriented firms focus not only customers but equally much on competitors. Additionally, they place emphasis on inter-functional coordination that is meant to create unison between all functions in the organization and become part of the organizational culture.

**Figure II**



**Source:** Adapted from Narver and Slater (1990). The effect of a market orientation on business profitability. *Journal of Marketing*, 54(4), 20-36.

A firm's capabilities are important in providing and sustaining its competitive advantage, and in the implementation of the entire strategy. Innovation capability is a special asset of a firm

(Guan and Ma, 2003). Authors such as Lawrence and Lorsch (1967), Prahalad and Hamel (1990), Kogut and Zander (1992) considered innovative capability as a key for competition. According to Adler and Shenbar (1990), innovative capability is defined as: (1) the capacity of developing new products satisfying market needs; (2) the capacity of applying appropriate process technologies to produce these new products; (3) the capacity of developing and adopting new product and processing technologies to satisfy the future needs; and (4) the capacity of responding to accidental technology activities and unexpected opportunities created by the competitors.

Kogut and Zander (1992) defined a firm's innovative capability as its ability to mobilize the knowledge included its employees and combine it to create new knowledge resulting in product or process innovation. Un (2002) stated that this capability is dynamic in that it involves interaction between firm's internal knowledge and the demands of the external market. It relates to the organizational knowledge and other competencies that are needed to improve current products and processes, and to develop new products (Romijn and Albaladejo (2002). It can be defined as the skills and knowledge needed effectively to absorb, master and improve existing technologies, products and to create new one (Lall, 1992). In response to the changing market conditions a high level of innovative capability indicates that the firm is able to develop new ideas and transform them into new products, processes or systems (Szeto, 2000). In view of this discussion, the following hypotheses were proposed:

**H<sub>0</sub>:** There is no significant relationship between market orientation, innovative capability and firm's performance.

**H<sub>02</sub>:** Market orientation and innovative capability has no impact on firm's performance

**H<sub>03</sub>:** There is no significant difference between the mean of firm's whose market orientation and innovative capability are high and the firm's whose market orientation and innovative capability are low.

### **3. METHODOLOGY/DESIGN**

A cross sectional survey design was adopted to examine the relationships that exist between market orientation, innovative capability and firm's performance in the Nigeria manufacturing firms. This study also follows a regression research strategy and helps in predicting behavior, thus justifying the use of survey research (Bordens & Abbott 2002). It also examine whether or not a relationship exists between the variables of study (Kerlinger, 1973). Data was generated from manufacturing firms across Nigeria on a wide basis relating to market orientation, innovative capability and firm performance.

The study population consist of 2,250 manufacturing firms in Nigeria (MAN, 1994, 2003) considered of manufacturing firms in Nigeria. Since 55.2% of Nigeria's 2,250 manufacturing firms are based in Lagos State (MAN, 1994, 2003), Lagos was considered a good representation of the manufacturing firms in Nigeria. Therefore the study sample was taken from Lagos State.

The technique used in the selection of participating manufacturing firm was a simple and stratified random sampling technique. With the help of field research assistants, the questionnaire was administered to the manufacturing firms. A total of 600 copies of the

questionnaire were administered to the firms but 511 were completely filled and returned. This represent 85.2% response rate. The justification for using simple random sampling technique is that it eliminates the likelihood that the sample is biased by the preference of the individual selecting the samples (Bordens and Abott, 2002). Another justification is that it is particularly essential when one wants to apply research findings directly to a population (Mook, 1983).

### 3.1 Analytical tools and Hypotheses Tests and Results

To derive useful meaning from the data, and examine the propositions of this study, data from the survey was analyzed using SPSS 17.0 (Statistical Package for Social Sciences) focusing on the descriptive and inferential statistics. Descriptive statistics such as mean, percentages and frequencies were employed to measure demographic characteristics of respondents, to analyze answers to research questions relating to market orientation, innovative capability and firm's performance. They are not meant to test a formal research hypothesis, but rather the summaries from a sample that characterize that sample. Pearson Product-Moment Correlation Coefficient (PPMCC) was used to examine the existence of relationship between market orientation, innovative capability and firm performance in the Nigeria manufacturing firms. Regression Analysis was used to ascertain the amount of variations in the dependent variable which can be associated with changes in the value of an independent or predictor variables holding other interfering variable constant.

## 4.0 RESULTS AND DISCUSSION

### 4.1 SOCIO-ECONOMIC CHARACTERISTICS OF THE RESPONDENT

**Table 1: Demographic Profile of Respondents**

		<i>Frequency</i>	<i>Percent</i>
<b>Sex</b>	Female	201	39.3
	Male	310	60.7
	<b>Total</b>	<b>511</b>	<b>100.0</b>
<b>Age (in years)</b>	Less than 30	198	38.7
	30 but less than 40	110	21.5
	40 but less than 50	98	19.2
	50 but less than 60	70	13.7
	60 and above	35	6.8
	<b>Total</b>	<b>511</b>	<b>100.0</b>
<b>Marital Status</b>	Single	358	70.0
	Married	118	23.09
	Divorced	10	1.9
	Widower	15	2.9
	Widow	10	1.9
	<b>Total</b>	<b>511</b>	<b>100.0</b>
<b>Educational Qualification</b>	Bachelor's degree or equivalent	315	61.6
	Master Degree	110	21.5
	Professional qualification	86	16.8
	<b>Total</b>	<b>511</b>	<b>100.0</b>

Source: Survey 2014

The demographic profile of respondents in Table 1 reveals that majority of the respondents were male, constituting 60.7% of all the respondents. Respondents who were 30 but less than 60 years old make up 54.4% of the entire respondents. Those who were less than 30 years old constitute only 38.7%, while 60 years and above constitute an insignificant proportion (6.8%) of the entire respondents. Majority of the respondents sampled were single and they constitute 70.0%, while 23.09% were single. The divorced constituted a percentage of 1.9% of the entire population, while the widower and widow make up only 4.8% each. Also, in terms of educational qualification, majority (61.6%) of them were Bachelor's degree or equivalent holders. Respondents who were holders of master's degree constitute 21.5% while those who had professional qualifications make up 16.8%.

## **4 EMPIRICAL RESULTS**

### **4.1 VARIABLES AND MEASURES**

#### **4.1.1 MARKET ORIENTATION**

For the study of firm's market orientation, a five-point Likert scale involving six items developed Narver and Slater, (1990) was adapted. The scale which ranges from "strongly agree" to "strongly disagree" was applied to assess a firm's emphasis on market orientation. Respondents rating on all items were summed up and averaged to obtain a firm's market orientation index. Market orientation index is classified high when the index is equal to or greater than 4.0 and low when it is lower than 4.0. A reliability score of 0.87 was obtained from the Cronbach's alpha test using the adapted scale from Narver and Slater (1990).

#### **4.1.2 INNOVATIVE CAPABILITY**

Concerning, innovative capability a five-point Likert scale involving three items developed by Hurley and Hult (1998), Prajogo and Sohal (2006), Alegre and Chiva (2008), Chen and Huang (2009), and Lee and Yu (2010) was adapted. The scale which ranges from "strongly agree" to "strongly disagree" was applied to assess a firm's innovative capability. Respondents rating on all items were summed up and averaged to obtain firm's innovative capability index. Innovative capability index is classified high when the index is equal to or greater than 4.0 and low when it is lower than 4.0. A reliability score of 0.78 was obtained from the Cronbach's alpha test using the adapted scale from Hurley and Hult (1998), Prajogo and Sohal (2006), Alegre and Chiva (2008), Chen and Huang (2009), and Lee and Yu (2010)

#### **4.1.2 FIRM'S PERFORMANCE**

For firm's performance, a five-point Likert scale involving seven items developed by Christmann, 2000; Hart, 1995. The scale range from "strongly agree" to "strongly disagree". The scores of six items were summed up and average to determine the index of firm's performance. An index of less than 4.0 was considered as low firm's performance while an index of 4.0 and above was considered as high firm's performance. The scale has a reliability score of 0.85 generated from Cronbach's alpha test.

## **4.2 MEAN INDICES, CORRELATION COEFFICIENT, REGRESSION ANALYSIS AND INDEPENDENT SAMPLES TEST**

#### 4.2.1 Relationship between Market Orientation, Innovative Capability and firm's Performance

**Table 3: Mean index of Market Orientation**

<i>Market Orientation Indicator</i>	<i>Frequency</i>	<i>Average Weight</i>
Customer Orientation	511	4.04
Competitor Orientation	511	3.70
Inter-functional coordination	511	4.12
Intelligence generation	511	4.10
Intelligence dissemination	511	3.95
Intelligence responsiveness	511	3.78
Customer focus	511	3.24
<b>Mean of Means</b>		<b>4.01</b>

Source: Survey 2014

**Table 4: Mean index of Innovative Capability**

<i>Innovation Indicator</i>	<i>Frequency</i>	<i>Average Weight</i>
Product Innovation	511	4.04
Process Innovation	511	3.70
Administrative Innovation	511	4.12
<b>Mean of Means</b>		<b>4.12</b>

Source: Survey 2014

With respect to market orientation, innovative capability and firm performance, the mean index of participating firms were 4.01, 4.12 and 4.03 respectively (see Table 3, 4 and 5) H<sub>1</sub> was tested through correlations coefficient test. Pearson's product moment correlations coefficient (0.945\*\*) indicates that market orientation and innovative capability has significant relationship on firm's performance. Market orientation, innovative capability and firm performance are significantly and positively correlated with each other at 0.05 level of significance. Therefore, the null hypothesis of no significant relationship is rejected. Hence, there is a significant relationship between market orientation, innovative capability and firm's performance in the Nigeria manufacturing firms.

**Table 5: Mean index of firm's performance**

<i>Firm performance indicator</i>	<i>Frequency</i>	<i>Average weight</i>
1. Return on investment (ROI)	511	4.19
2. Profits as a percentage of sales	511	4.24
3. Decreasing the product or service delivery cycle time	511	3.97
4. Rapid response to market demand change	511	4.17
5. Overall marketing effectiveness ( <b>Mean of means</b> )		<b>4.03</b>

Sources: Survey 2014

Hypothesis (H<sub>02</sub>) was tested by a means of a Regression Analysis. The results of the regression analysis of the relationship between market orientation, innovative capability and firm's performance are shown in Table 5. Table 5(b) shows the analysis of variance of the fitted regression equation in significant with F value of 773.304. This is an indication that the model is a good one. It shows a statistically significant relationship between the variables at 95% confidence level. Therefore, the null hypothesis of no significant impact is rejected

The R<sup>2</sup> statistics in Table 5(a) indicates that the model as fitted explains 89.3 of the total variability in firm's performance. In order words, 89.3% of the total variability in firm's performance can be explained by market orientation and innovative capability. The value of R<sup>2</sup> = 0.893 shows that market orientation and innovative capability is a good predictor of firm's performance.

The standardised coefficients (Beta) value in Table 6(c) reveals that the independent variable is statistically significant at 0.05 significance level.

**Table 5a: Model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
R/P	.945 <sup>a</sup>	.893	.892	.50823

**Table 5b: ANOVA**

Model		Sum of square		Mean Square	F	Sig.
R/P	Regression	250.962	1	17564.687	773.304	.000
	Residual	29.962	133	24.284		
		280.924				

**Table 5c: Coefficients**

Model		Unstandardized coefficients		Standardized Coefficients	T	Sig.
		B	Std Error	Beta		
R/P						
	(Constant) Market Orientation & Innovative Capability	.033	.136	.945	.242	.000
		.996	.032		31.171	.000

*Dependent Variable: Firm's performance p < 0.05*

**Table 6:** Independent samples test on market orientation and innovative capability that have high firm's performance and those that have low firm's performance

**6 a: Group statistics**

	Market Orientation & Innovative Capability	N	Mean	Std. Deviation	Std. Error Mean
Firm's performance Index	Low	511	4.2342	.89442	0.05726
	High	511	3.5674	.34401	0.01667

**6 b: Independent samples test**

<i>t-test for Equality of Means</i>						
T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference		
				Lower	Upper	
-15.948	668	.000	-.77495	-0.87036	-0.67954	

Hypothesis (H<sub>03</sub>) was tested using independent sample test. The results of the independent sample t-test as revealed in Table 6(a) show that firm's performance mean index (4.23) of firms with high market orientation and innovative capability is different from the firm's performance mean index (3.56) of firms with low market orientation and innovative capability. The difference between the two mean was found to be statistically significant at p < .05 [Table 6(b)].

Therefore, the null hypothesis of no significant difference is rejected. Thus, there is a significant difference between the mean of firms whose market orientation and innovative capability are high and of firms whose market orientation and innovative capability are low.

## 5.0 DISCUSSION AND FINDINGS

This research aimed at examining the relationship between market orientation, innovative capability and firm's performance in the Nigeria manufacturing firms. The results found out that there is a direct positive and significant relationship between market orientation, innovative capability and firm performance in the Nigeria manufacturing firms. Findings also reveal that there is a significant difference between the mean of firms whose market orientation and innovative capability are high and those of firms whose market orientation and innovative capability are low. From the discussions it is evident that firms in Nigeria would perform well if market orientation and innovative capability is improved and practiced formally. This however can be achieved as the findings show if customers are put first, thus customer's satisfactions are seen as priority. Again if customer information is shared between management and employees, employees can make inputs and to how best customers can be served to improve service quality. Yet again it is important for firms in Nigeria to serve customers where they have competitive advantage and also attend regularly to customer complaints.

## 6.0 POLICY IMPLICATIONS

The findings of this study have implications for policymakers, practitioners (owners and managers) and the academia (theory). First government quest of finding solution to the problems of firms in Nigeria should not only concentrate on finance, but strategies to training and orienting firms on the critical role of market and customer orientation to their development. Private and public Business Development Services should advice their clients on the importance of market orientation and innovative capability. The results of the study suggest that owners/managers should allow their products and services to emerge out of a customer's need. Owners/managers should also keep good record of those needs as they change and efforts should be made to continue to satisfy them in light of positioning their market offering at the heart of the customer, whilst monitoring the treacherous effect of their rivals.

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