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## How to Understand Customer Needs? The role of Market Orientation, Innovation Capability, and Learning Orientation

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### Abstract

Excellent marketing is always oriented to the needs and desires of consumers, and consumer orientation is inseparable from a market orientation that the company must develop. This study aims to analyze the relationship between market orientation and customer loyalty with innovation capability as a mediator and learning orientation as a moderator in the relationship between innovation capability and customer loyalty. Data were collected using a cross-sectional survey among 95 online shop owners. Furthermore, the data were analyzed using Hayes' PROCESS macro-based hierarchical regression. The results revealed that market orientation had a positive effect on innovation capability. Innovation capability mediated the correlation between market orientation and customer loyalty. Furthermore, learning orientation reinforces the correlation between innovation capability and customer loyalty. These findings contribute to understanding the effect of innovation capability and learning orientation on market orientation and online shop customer loyalty.

**Keywords:** market orientation, innovation ability, learning orientation, consumer loyalty, online shop

### Introduction

Online business is considered the right solution for entrepreneurs to maintain their business and customers during the COVID-19 pandemic. In the last few decades, a business strategy that focuses on market orientation has been considered important by academics and practitioners regarding its significant impact on customer loyalty. Market orientation was related to the organizational efforts to retain customers and make customers interested in its products (Narver & Slater, 1990). Market-oriented organizations may create superior value for the customers through generating, disseminating and responding to market intelligence processes.

On the other hand, online business development, which is becoming a trend among the public, encourages consumers to prefer to make transactions online to buy the products they like. The consequences of consumers' desire to buy online have an impact on increasing online sellers both in the marketplace

and social media. The Indonesian E-commerce Association (idEA) stated that there were 4.8 million MSMEs incorporated in various marketplaces in March 2021. This figure has increased wherein 2020 there are 3.8 million (Sukarno, 2021). This condition benefits consumers to have many choices in buying their products. However, from the seller's point of view, this will result in fluctuations in their sales if they are not able to present a better product than their competitors. Online business people must keep their customers loyal to their products.

Previous studies revealed that market orientation had a positive effect on customer loyalty (Fernandes Sampaio, Hernández Mogollón, & de Ascensão Gouveia Rodrigues, 2020; Huang, Weng, Lai, & Hu, 2013; Maydeu-Olivares & Lado, 2003). However, another study found that market orientation does not affect customer loyalty (Mandung, Modding, Hasan, & Ella, 2018; Subroto, 2013). These studies were also supported by (Sanzo, Santos, Álvarez, & Vázquez, 2007), which found that market orientation negatively affected consumer loyalty. Therefore, the two views based on these studies' results indicate a research gap due to no consistent results. This study tries to solve the inconsistency between market orientation and customer loyalty by offering innovation capability as a mediator in such correlation (W. E. Baker & Sinkula, 1999; Qureshi, Aziz, & Mian, 2017; Tajeddini, Altinay, & Ratten, 2017) and learning orientation as a moderator in the correlation between innovation capability and customer loyalty (Fang, Chang, Ou, & Chou, 2014; Salge & Vera, 2012; Tajeddini et al., 2017).

On the other hand, based on a review of previous studies, there was a population gap. Some of the populations associated with this market orientation had not been explored and investigated. Market orientation seems important and worthy of investigation in the context of online shop owners. This group investigation is important because currently all businesses have turned to purchasing and selling systems through online media. In fact, previous studies focused mainly on the population of conventional companies (offline). Studies on market orientation among online shop owners are still rarely conducted. Therefore, a market orientation study that focuses on online shops can be developed as a new science.

Furthermore, social learning theory (Bandura, 1977) was applied to highlight the mediating role of innovation capability as an important condition for organizations. Innovation capability relates to the organization's ability to find new ideas to meet consumer needs and expectations so as to increase customer loyalty. As for learning orientation, it is identified as the right principle to encourage innovation in the organization. Thus, innovation capability influenced by market and learning orientation is an important determinant of long-term consumer loyalty. Social learning theory states that the environment and individual motivation determine individual behavior to learn proactively (Lam, Kraus, & Ahearne, 2010).

This study tries to determine the correlation between market orientation and customer loyalty mediated by innovation capability and reinforced by learning orientation. An explanation regarding such correlation is expected to answer the research gap between market orientation and customer loyalty through the context of the study population, namely online shop owners.

## **Review of Literature**

### ***Social learning theory***

According to Social Learning theory, there are two types of individual learning: reinforcement learning and vicarious learning (Lam et al., 2010). Social learning theory with regard to reinforcement learning emphasizes that individuals who learn aim for reinforcement. Thus, these individuals tend to increase or decrease behavior that can lead to positive or negative consequences. In other words, this learning emphasizes more on one's experience. Meanwhile, vicarious learning relates to a person's behavior in observing others with the aim of avoiding mistakes through the learning they do through other people (Bandura, 1977). Thus, based on this knowledge, market orientation is part of social learning theory.

### ***Market orientation and innovation capability***

Market orientation is a factor that can drive innovation capability. According to Kohli & Jaworski (1990), market orientation is company's effort to apply marketing concepts to achieve excellent company performance. The organizational efforts are expected to meet the needs and desires of consumers. Market orientation relates to the organizational climate that consists of three components: customer orientation, competitor orientation, and inter-functional coordination (Han, Kim, & Srivastava, 1998; Huang et al., 2013; Narver & Slater, 1990). Customer orientation is an organizational effort to meet market needs by considering the needs and desires of consumers. Competitor orientation is an organizational effort to meet market needs by considering the strategies carried out by competitors. Meanwhile, inter-functional coordination is the company's efforts to coordinate each function in marketing.

The results of previous studies revealed that market orientation could improve business innovation capabilities (Akman & Yilmaz, 2008; Aydin, 2020; Grawe, Chen, & Daugherty, 2009; Phorncharoen, 2020; Prifti & Alimehmeti, 2017; Wong & Tong, 2012). Market orientation relates to the company's desire to know what customers need. Thus, it is this orientation to customer needs that can stimulate business innovation capabilities. However, another study found that the market orientation dimension did not affect innovation as well as research (Alhakimi & Mahmoud, 2020; Ho, Nguyen, Adhikaria, Miles, & Bonneya, 2017). Furthermore, this study tries to confirm the positive correlation between market orientation and innovation capability among online shop businesses.

*H1: Market orientation has a positive effect on innovation capability*

***Market orientation, innovation capability and customer loyalty***

Innovation capability mediates the correlation between market orientation and customer loyalty. Innovation is very important for business sustainability in today's digital era. An advanced company is a company that pays attention to innovation performance because innovation activities are closely related to products, employees, and organizations. Businesses that innovate should consider and decide on products based on market needs. In addition, businesses with high innovative capabilities will be more successful in developing new capabilities that may create competitive advantage and high performance (Akman & Yilmaz, 2008).

Fundamentally, innovation is related to two things: the innovation process and the results of the innovation process (Salge & Vera, 2012). Within the innovation process, the company must prepare human resources who have the ability to create something unique, new and interesting so that the needs and desires of consumers can be met. Innovation capability is a valuable asset for companies to create and maintain a competitive advantage (Rajapathirana & Hui, 2018). Therefore, innovation capability is very important since it is closely related to the way organizations understand consumer desires. If the company provides products as needed and expected by the customer. Customer loyalty will eventually emerge so as to create consumer retention and loyalty to the products provided by the company.

Previous studies found that innovation mediated the correlation between market orientation and company performance (W. Baker & Sinkula, 1999) and the correlation between organic structure and company performance (Tajeddini et al., 2017). Another study also found that market orientation had an effect on the company performance through the company's marketing capabilities (Qureshi et al., 2017).

*H2: Innovation capability will mediate the correlation between market orientation and customer loyalty*

***Innovation capability and customer loyalty***

Innovation capability affects the increase in consumer loyalty. This is due to the ability to innovate being related to the way companies create products and services that are valuable for the consumers. If consumers have a valuable experience in using a product or service, their loyalty will grow by itself. Therefore, the ability to innovate is very important to create loyal customers.

Companies that have loyal customers will be at least trusted by the consumers and the products or services they sell have value in meeting the consumer needs. Therefore, companies must try to attract consumers so as to

create consumer retention towards the products or services they sell. The right way to attract consumers is to provide for the consumer needs and desires. Customer loyalty is a condition wherein customers repurchase from the same service provider and continue to recommend or maintain a positive attitude towards the service provider (Kandampully & Suhartanto, 2000). The dimensions of customer loyalty are behavior of customer loyalty and attitude of customer loyalty (Kyle & Theodorakis, 2010)

The previous study results showed that employee innovation could increase customer loyalty to clothing products in Iran (Hanzaee, Nayebzadeh, & Jalaly, 2012). Likewise, another study also found that innovation had a significant contribution to increasing consumer loyalty. According to the study, innovation was very important in developing consumer trust so that gradually they had loyalty to the company (Lemy, Goh, & Ferry, 2019). Thus, innovation capability is one of the factors that can make consumers believe in the products sold by the company to create consumer loyalty.

*H3: Innovation capability has a positive effect on customer loyalty*

### ***Innovation capability, learning orientation, and customer loyalty***

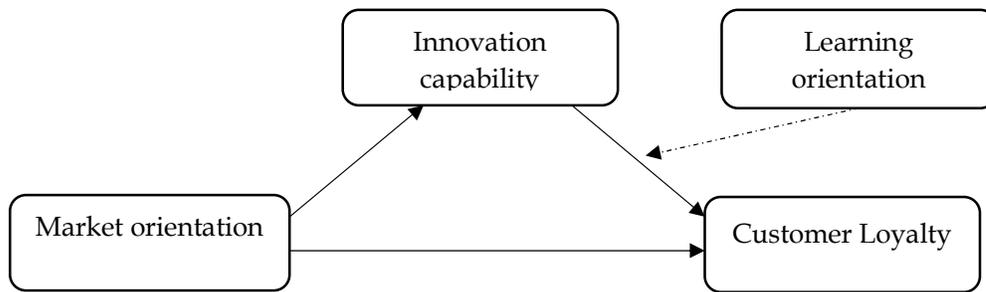
In addition to the innovation capability factor that can increase customer loyalty (Foroudi, Jin, Gupta, Melewar, & Foroudi, 2016), other factors can affect the correlation between the two, namely learning orientation becomes the culture within the organization. Learning orientation is the main business capital in understanding consumer needs. Organizations that have the proper learning system can create organizational sustainability capabilities. Learning orientation in the organization is very beneficial for employees to improve their skills and abilities to develop creativity and innovation. Many organizations are successful in creating a learning system that can stimulate their employees to innovate. However, some organizations are not successful in their learning system.

According to Sinkula, Baker, & Noordewier (1997), learning orientation relates to values that grow in organizations that affect the tendency of organizations to create and use knowledge to implement learning proactively. Meanwhile, according to Salge & Vera (2012), learning orientation relates to the commitment to continuous learning and placing value in each lesson. Thus, learning orientation on improving human resource capabilities is very important, and companies need specific programs to improve the ability of their employees to create valuable products or services.

Learning orientation which functions as a factor that can reinforce the correlation between variables has been discussed in previous studies. A previous study found that learning orientation reinforced the correlation between internal orientation and an increase in company's ability to understand market needs (Fang et al., 2014). Another study also revealed that the

correlation between innovation capability and service quality in public hospitals was reinforced by learning orientation (Salge & Vera, 2012). A high learning orientation can trigger innovation capability so that employees can improve their services.

*H4: Learning orientation moderates the correlation between market orientation and innovation capability*



**Figure 1. Conceptual model**

## **Research Method**

### *Procedures*

This study applied a quantitative approach with an explanatory method. A cross-sectional survey was conducted to collect data, namely by distributing 150 questionnaires sent via email by snowballing technique to online shop owners within a period of 1 month, starting from September 7 to October 7. At the end of the data collection period, 103 (68%) online shop owners filled out the questionnaires. However, only 95 (63%) respondents were eligible for further tests. Based on survey results regarding service period, 76 or 80% of respondents had a business experience of 1 to 3 years, 18 or 19% of respondents had a business experience of 4 to 6 years, of 1 or 1% of respondents had a business experience of 7 years or more. Regarding sex, 61 or 64% of respondents were female, and 34 or 36% were male. Based on Education, Elementary, 18 or 19% of respondents had Junior and Senior High School Education, 68 or 72% of respondents had bachelor degrees, and 9 or 9% of respondents had Master and Doctoral degrees. Based on the business media, 64 or 67% of respondents used online shops, and 31 or 33% used the marketplace.

### *Assessment*

The assessment of each variable written on the questionnaire was adapted from several literatures that had been previously conducted the similar study. Furthermore, each item was measured using a 5-point Likert scale with the following interpretation: 1 = "strongly disagree" and 5 = "strongly agree".

Market orientation was assessed using ten items adopted from (Grawe et al., 2009). One example is the item “My strategy for gaining a competitive advantage is based on my understanding of customer needs”. Learning orientation was assessed using four items adopted from (Sinkula et al., 1997). One example is the item “Learning in my organization is considered as a key commodity to guarantee organizational survival”. Innovation capability was assessed using five items adopted from (Akman & Yilmaz, 2008; Monferrer, Blesa, & Ripollés, 2015). One example is the item “my online shop is able to evaluate new ideas from customers, suppliers, etc. and take them into account for product development”. Customer loyalty was assessed by four items adopted from (Fernandes Sampaio et al., 2020). One example is the item “Our clients recommend our services and products.”

### Data analysis

Hayes' PROCESS hierarchical regression was applied to analyze the data in order to test the study hypothesis. The first test was applied for the hierarchical regression models in hypothesis 1 and hypothesis 2. The second test was applied for the hierarchical regression models on hypothesis 3 and hypothesis 4. Tests for the hypothesis used conditional process analysis to test the moderation and mediation effect of innovation capability and learning orientation on customer loyalty (Hayes, 2013).

### Results

Table 1 shows the following descriptive and correlation tests along with mean and standard deviation data. The test results were as follows:

Table 1. Summary of Mean, Std. Deviation, Correlation, and Reliability.

Variable	Mean	Std. Deviation	1	2	3	4	5	6	7	8
Tenor	1.21	0.435	1							
Gender	1.36	0.482	0.043	1						
Education	1.91	0.527	0.041	0.051	1					
Business Type	1.33	0.471	0.128	0.089	0.126	1				
Market Orientation	2.9432	0.67755	-	0.008	0.149	-0.081	0.791			
Learning Orientation	3.0184	0.98205	-	-	0.044	-0.036	.665**	0.707		
Innovation Capability	2.7179	0.88317	-	-	0.129	-0.134	.712**	.628**	0.835	
Customer Loyalty	2.7421	0.82146	-	-	0.127	-0.110	.629**	.538**	.821**	0.772
			.226*	0.181						

\* Correlation is significant at the 0.05 level (2-tailed).

\*\* Correlation is significant at the 0.01 level (2-tailed).

Based on table 1, all variables had a significant correlation. Market orientation was positively related to innovation capability ( $r=0.712$ ,  $p<0.000$ ), “market orientation” was positively related to customer loyalty ( $r=0.629$ ,  $p<0.000$ ), learning orientation was positively related to customer loyalty ( $r=0.538$ ,  $p<0.000$ ), and innovation capability was positively related to customer loyalty ( $r=0.821$ ,  $p<0.000$ ). These findings support all study hypotheses. For reliability testing using Cronbach's alpha, all variables were reliable with a value of  $>0.60$  (Hair, Black, Babin, & Anderson, 2013).

Table 2. Innovation Capability as a Mediator between Market Orientation and Customer Loyalty

Model	M = Innovation Capability				Y = Customer Loyalty			
	B	SE	95% CI		B	SE	95% CI	
			LLCI (ULCI)				LLCI (ULCI)	
Constant	-0.0141	0.2865	-0.5830	(0.5549)	0.5076	0.2166	0.0775	(0.9378)
Market Orientation	0.9282	0.0949	0.7398	(1.1167)	0.1090	0.1022	-0.0939	(0.3120)
Innovation Capability					0.7040	0.0784	0.5484	(0.8597)
Direct effect MO on CL	0.1090	0.1022	-0.0939	0.3120				
Indirect effect MO on CL	0.6535	0.1204	0.4103	0.8890				

Note. N = 95. \*\* $p < .01$ , \* $p < .05$ . LLCI = Lower level class interval, and ULCI = Upper level class interval. 95% level of confidence for all confidence intervals was used.

Hypothesis 1, which states that market orientation is positively related to innovation capability was supported (Table 2;  $\beta = 0.9282$ ,  $p < 0.01$ ). Hypothesis 2 states that innovation capability mediates the correlation between market orientation and customer loyalty. The study on such mediation applied bootstrapping to explain the strength of the indirect effect (Hayes, 2013). Table 2 explains that hypothesis 2 was accepted. In other words, the correlation between market orientation and customer loyalty was mediated by learning orientation significantly with a coefficient value of ( $\beta = 0.6535$ ; 95% bias-corrected bootstrap confidence intervals excluded zero, LLCI 0.4103 and ULCI 0.8890).

Table 3. Learning orientation as a Moderator of the Relationship between Innovation Capability and Customer Loyalty

Model	M = Innovation Capability				Y = Customer Loyalty			
	B	SE	95% CI		B	SE	95% CI	
			LLCI (ULCI)				LLCI (ULCI)	
Constant	-2.7320	0.2865	-3.3009	-2.1630	2.4474	0.3296	1.7980	3.0969
Market Orientation	0.928	0.0949	0.7398	1.1167	0.0772	0.1106	-0.1426	0.2970
Innovation Capability					0.5910	0.0957	0.4008	0.7812

M = Innovation Capability		Y = Customer Loyalty	
Learning orientation		0.0245	0.0689 -0.1125 0.1615
IC x LO		0.1251	0.0577 0.0104 0.2398
	R <sup>2</sup>	0.5071	R <sup>2</sup> 0.6940
	F (df)	1, 93	F (df) 4, 90

Note. N = 95. \*\*p < .01, \*p < .05. LLCI = Lower level class interval and ULCI = Upper level class interval. 95% level of confidence for all confidence intervals was used.

Hypothesis 3, which states that innovation capability is positively related to customer loyalty was supported (Table 3;  $\beta = 0.5910$ ,  $p < 0.01$ ). Hypothesis 4 states that learning orientation moderates the correlation between innovation capability and customer loyalty. The moderating correlation was strengthened in a high level of learning orientation. Therefore, Hypothesis 4 was accepted. The moderating effect of leaning orientation is shown in table 3 with a coefficient value of ( $\beta = 0.1251$ ,  $p < 0.05$ ).

Table 4 Indirect (moderated mediation) effects (Model 14 of the process analysis)

Learning Orientation	Conditional Effect	SE	95% CI	
			LLCI (ULCI)	
Low (-0.9903)	0.4682	0.1349	0.2002	0.7361
Medium (0.000)	0.5910	0.0957	0.4008	0.7812
High (0.9903)	0.7139	0.0810	0.5529	0.8748

Note. N = 95. \*\*p < .01, \*p < .05.

To explain the moderating and mediating effects specifically, this study applied a conditional indirect effect on market orientation to customer loyalty through innovation capability based on the level of learning orientation. The bootstrap method with 5,000 resamplings was performed to ensure the significance of the correlation. The conditional indirect effect on market orientation towards customer loyalty through innovation capability was moderated by learning orientation since learning orientation moderated the effect of innovation capability on customer loyalty (H4). Table 4 shows the results of conditional indirect effects. Based on the bootstrap outcome, the indirect effect for all levels of learning orientation was significant. The indirect effect strengthened at a high level of learning orientation and weakened at a low level of learning orientation. In other words, at a high level of learning orientation, the correlation between market orientation and customer loyalty through innovation capability was strong, while at a low level of learning orientation, mediating correlation became weak.

## Discussion

This study aims to determine the correlation between market orientation and innovation capability and the role of learning orientation in the correlation between innovation capability and customer loyalty. This study used social learning theory to explain the conceptual framework (Bandura, 1977; Lam et al.,

2010), in order hope to contribute to complement science regarding consumer-oriented learning.

The results of the study analysis for Hypothesis 1 found that market orientation had a positive effect on innovation capability. This indicated that the higher the market orientation performed by the company, the higher the innovation capability. Market orientation allows companies to understand customer needs and expectations to create new ideas that encourage companies to innovate. The results of this study are supported by Wong & Tong (2012), which also confirmed the correlation between market orientation and innovation. Furthermore, according to the study, a consumer-oriented company always listened and responded to consumer needs so as to trigger the emergence of new ideas from the employees. Another study (Aydin, 2020) found an effect of market orientation on innovation. Market orientation allowed company owners and leaders to consider the needs and expectations of consumers as a top priority in their performance. When the company set this priority, the company indirectly tried to find new ideas that eventually supported innovation.

Hypothesis 2 states that the correlation between market orientation and customer loyalty is mediated by innovation capability. This study confirmed the importance of innovation capability to be managed by the leaders to maintain customer loyalty and retention. Market orientation only acts as a factor to find out consumer needs and expectations. However, to meet these needs and expectations, company leaders must create creativity and product innovation. The role of innovation as a mediating variable is supported by previous studies that innovation mediated the effect of market orientation on company performance (W. Baker & Sinkula, 1999) and organic structure on company performance (Tajeddini et al., 2017). Another study (Qureshi et al., 2017) found an effect of market orientation on the company performance through the company's marketing capabilities. Other studies (Han et al., 1998; Keskin, 2006) also supported the idea that innovation could mediate the correlation between market orientation and performance.

Hypothesis 3 states that statistically innovation capability has a positive effect on customer orientation. It was found that increasing the ability of the company to support innovation could increase consumer loyalty to the products they have ever used. The results of this study are supported by (Lemy et al., 2019) which found that service innovation was the most dominant factor in increasing consumer loyalty for 5-star hotels in Jakarta. Another study (Foroudi et al., 2016) also explained that innovation capability affected customer loyalty among retail stores in London.

Hypothesis 4 states that learning orientation statistically reinforces the correlation between innovation capability and customer loyalty. Learning orientation performed by the company can trigger the ability of employees in the organization. Leaders who have the vision to develop their organization

must learn and apply their learning to products and services to be experienced by consumers. Impressive products and services will create a good experience that can further encourage consumer loyalty. The moderating role of learning orientation is supported by previous research, which found that learning orientation could reinforce innovation capability. A study conducted by (Salge & Vera, 2012) states that learning orientation strengthens the relationship between innovation activity and public service quality. The study explains that public service organizations will benefit from innovative activities when their learning orientation is prominent. This research is also strengthened by (Tajeddini et al., 2017), who utilize the position of learning orientation as a moderator variable in strengthening the relationship between organic structure and service innovation.

## **Conclusions**

Based on the analysis and discussion results, this study confirmed that statistically market orientation had a positive effect on innovation capability. Customer-oriented and competitors-oriented companies positioned themselves as organizations that must perform continuous monitoring to understand market conditions. In addition, this study confirmed the correlation between market orientation and customer loyalty mediated by innovation capability. Therefore, consumer loyalty was determined by how the company met their needs and expectations, namely by providing innovative, unique and attractive products to consumers. Furthermore, the effect of innovation capability positively increased customer loyalty, wherein the correlation between the two proxies was also influenced by learning orientation. This finding explained that innovation capability acted as a crucial factor in increasing customer loyalty and learning orientation was a factor that could reinforce the correlation between innovation capability and customer loyalty.

## **Managerial implications**

This study has theoretical and practical implications that can be useful for both academics and practitioners. First, this study describes a theoretical basis regarding the correlation between market orientation and innovation capability and the role of innovation in the correlation between market orientation and customer loyalty. In the past, studies on the mediating effect of innovation capability in the correlation between market orientation and customer loyalty were rarely conducted, especially among online shop owners. Second, this study offers a theoretical basis for researchers interested in this field to further investigate the application of learning orientation as a moderating factor in the correlation between innovation capability and customer loyalty in other industries. Third, this study is also believed to provide valuable guidelines for academics in the study on learning orientation as a moderating factor in the correlation between innovation capability and customer loyalty.

The practical implication that this study can provide is regarding valuable information to online shop owners to develop consumer loyalty to the products they sell by adopting a more systematic view of market orientation, innovation capability and learning orientation. Online shop owners can improve their ability to design their services to be more effective and efficient. In addition, this study also provides an understanding to the owners regarding the importance of learning orientation in increasing innovation ability and consumer loyalty. Therefore, specific training and learning materials are needed for employees to ensure that they always put customers first and meet customer needs most appropriately and efficiently. Thus, this information can be applied as an initial guide in determining the company's marketing strategy to achieve better performance.

### **Limitation and further study**

This study certainly requires improvements in the future due to several limitations identified by researchers. First, this study applied a cross-sectional survey, so that the data obtained from respondents had a tendency to reveal consumer perceptions in different mood states. Therefore, further researchers are expected to apply longitudinal data collection three times among the same respondent. Second, the majority of respondents in this study were online owners who had just started their businesses. The participation of respondents who have been in online business for a long time may provide more accurate results for a similar study. Third, all respondents in this study were online shop owners, and researchers did not involve lower and middle-level managers to become respondents in this study. Further study is expected to reveal more accurate findings involving respondents at the lower, middle and upper levels. Fourth, this study did not test market orientation and learning orientation dimensions in the mediation and moderation analysis. Therefore, further investigation is expected to test the dimensions of market orientation and learning orientation.

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