

Exploring the Relationship between Market Orientation and Innovation in SMEs: Evidence from Pakistan

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ABSTRACT

This study explores the relationship between market orientation and innovation in small and medium-sized enterprises (SMEs) in Pakistan. Market orientation, characterized by a business's focus on customer needs, competitor actions, and inter-functional coordination, is posited to be a key driver of innovation, which is crucial for the competitive advantage and growth of SMEs. The study has employed the Market Orientation Theory and the Resource-Based View (RBV) as its theoretical framework. Using a mixed-methods approach, the research combines quantitative data from surveys of SME managers and qualitative insights from in-depth interviews. The findings reveal a significant positive relationship between market orientation and both product and process innovations in Pakistani SMEs. The study highlights how understanding and responding to customer needs, monitoring competitor actions, and fostering internal collaboration contribute to the development of new products and services, as well as improvements in operational processes. Additionally, the research identifies several barriers to innovation, including resource constraints and limited market access, and provides recommendations for enhancing market-oriented practices within the SME sector in Pakistan. This study contributes to the literature on market orientation and innovation in emerging markets, offering practical implications for policymakers and business leaders aiming to foster a more innovative and competitive SME landscape in Pakistan.

Keywords: *SMEs; Market Orientation; Innovation; Resource Based Theory (RBV); Competitive Advantage.*

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