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Statistical Examination of the Customer and Competitor Orientation Impact on Economic Performance: The Mediating Role of Innovation Capability

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Abstract: This study examines the influence of customer orientation and competitor orientation on innovation capability and their subsequent impact on economic performance in the Saudi manufacturing sector. A quantitative research design was applied, and data were collected from 341 employees working in manufacturing organizations. Data were analyzed using structural equation modeling with SmartPLS. The findings reveal that both customer orientation and competitor orientation significantly enhance innovation capability, which in turn exerts a strong positive effect on economic performance. Mediation analysis confirms that the relationship between customer and competitor orientation, and economic performance is primarily indirect, operating through innovation capability. The results emphasize the critical role of innovation capability as a strategic bridge between market orientation and financial success. The study reinforces the importance of leveraging customer and competitor intelligence through innovation to achieve sustainable economic gains. This means fostering an innovation-driven culture that systematically integrates market insights into decision-making. Implications for managers highlight the need to align customer and competitor insights with innovation processes to sustain competitive advantage.

Keywords: Innovation, Economic Performance, Orientation, Customer, Competitor.

1. Introduction

In today's rapidly changing business environment, organizations are under constant pressure to respond to dynamic market conditions, evolving customer expectations, and intensified global competition [1,2]. The ability to sustain competitiveness is no longer determined solely by operational efficiency or cost advantages; rather, it increasingly depends on how effectively firms understand their markets and transform this knowledge into innovative offerings [3]. Market orientation, which consists of customer orientation and competitor orientation, has long been viewed as a critical strategic resource enabling firms to anticipate external demands and act accordingly. However, the link between market orientation and firm performance is not always straightforward [4]. Market insights must be translated into innovation capability for organizations to achieve meaningful and sustainable outcomes

Customer orientation emphasizes the importance of identifying and responding to customer needs, preferences, and satisfaction. Organizations that are highly customer-oriented prioritize building long-term relationships, improving product quality, and delivering superior value [5]. On the other hand, competitor orientation focuses on monitoring, analyzing, and responding to the strategies and actions of rivals in the market [6]. Together, these two dimensions of market orientation provide firms with a balanced perspective: a forward-looking view of customer demands and a defensive stance against competitive pressures [7]. Yet, their true impact lies in how effectively organizations convert this knowledge into innovation, whether through product development, service improvement, or process enhancement

Innovation capability represents the organizational capacity to introduce new ideas, methods, or products and adapt existing approaches to meet market requirements [8]. It acts as a bridge between external market orientation and internal strategic performance. Firms that excel in innovation not only respond to existing customer and competitor signals but also proactively shape market dynamics. In this sense, innovation capability does not merely reflect the adoption of new technologies or practices; it reflects a deeper cultural and strategic commitment to continuous improvement and creativity. Research increasingly highlights innovation as a key driver of sustainable financial success, enabling firms to differentiate themselves and maintain long-term advantage

Organizations achieve their highest success level through economic performance which serves as the final indicator of success in competitive markets [9]. The market position of a company becomes evident through profitability and return on investment and cash flow metrics which demonstrate both operational efficiency and market-based strategic advantages [10,11]. The

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Saudi Arabian government needs to enhance economic performance because the nation aims to move away from oil-based economy through its national competitiveness enhancement. Local and international market sustainability for these firms depends on their ability to maintain equilibrium between market vision. The manufacturing sector drives economic transformation through employment creation of employment opportunities and industrial expansion and global market orientation and innovation capability

The relationship between market orientation and economic performance through innovation capability lacks sufficient empirical research to establish knowledge about this specific market. So, the research aims to determine how customer and competitor orientation affect innovation capability which subsequently impacts economic performance. The research establishes a strong connection between market orientation and financial performance through innovation capability by using empirical data. The research contributes to theoretical knowledge about market orientation and innovation performance in the Middle Eastern region although scholars agree about their essential value. The research investigates the Saudi manufacturing sector relationships and delivers actionable guidance for managers who operate within a setting of economic transformation and industrial growth and international market access. Organizations need to transform market intelligence into innovative solutions to achieve better results instead of depending only on customer and competitor knowledge. The actual source of competitive advantage and superior economic performance stems from converting market intelligence into innovative solutions

2. Literature Review:

Market orientation functions as a vital strategic resource which helps businesses stay competitive in changing market conditions [12]. The two core elements of market orientation consist of customer orientation and competitor orientation. The two dimensions show how organizations acquire market intelligence and share it with their teams for effective market response. The two orientations work together to create organizational strategies which drive innovation practices that result in better performance results

2.1 Customer Orientation and Innovation Capability

Organizations determine their customer orientation through their ability to understand and fulfill customer requirements [13]. Organizations with strong customer orientation maintain ongoing feedback collection and satisfaction survey administration and decision-making integration of customer preferences [14]. The organization achieves better market alignment through its focused approach to customer needs. Organizations that focus on their customers will create innovative solutions which appeal to their target audience [15]. Organizations that track customer requirements can detect product or service improvement opportunities and unmet customer needs. The analysis of customer feedback reveals upcoming market requirements which allows businesses to create solutions that fulfill unmet customer needs. Customer orientation enables organizations to discover hidden customer needs which results in both incremental and revolutionary product innovations

Manufacturing organizations operating in Saudi Arabia need to focus on customer orientation because their market shows changing consumer preferences during economic transformation. The integration of customer feedback into innovation processes helps businesses create products and services which fulfill quality requirements while matching cultural and market requirements

H1: Customer orientation influences on innovation capability

2.2 Competitor Orientation and Innovation Capability

A firm demonstrates competitor orientation through its ability to collect and evaluate information about its competitors' strategic approaches and their organizational advantages and disadvantages [16]. Organizations with effective competitor orientation systems track market performance while predicting competitor actions to make strategic adjustments [17]. The main purpose of competitor orientation goes beyond copying others because it helps businesses create because it forces businesses to maintain superior value delivery compared to their market rivals [18]. Organizations that track competitor activities discover industry benchmarks and new technologies and effective business methods. The unique market positions through competitor weakness identification and strategic counterplay development. The practice of competitor orientation drives innovation [19]. The acquired knowledge drives companies to create innovative solutions through process enhancements and new product development that surpasses competitor capabilities. The survival and expansion of Saudi manufacturing businesses heavily depend on their ability to track competitor activities within their competitive market sector

H2: Competitor orientation influences on innovation capability

2.3 Innovation Capability and Economic Performance

Organizations that demonstrate innovation capability possess the ability to develop new ideas which they can execute and modify for creating business value [20,21]. The concept of innovation capability extends beyond technological progress to

include complete organizational systems and management approaches and service delivery frameworks [22]. Organizations with strong innovation capabilities demonstrate superior agility and resilience and better adaptability to market changes [23]. The ability of firms to innovate directly affects their economic performance because it helps them create unique offerings that sustain market leadership [24]. The implementation of new products and production improvements and better customer experiences through innovation leads to financial success and extended business expansion. Organizations that maintain continuous innovation efforts develop better capabilities to handle external disruptions which enables them to maintain their performance levels during unstable times

H3: Innovation capability influences on economic performance

2.4 Mediating Role of Innovation Capability

Market orientation gives businesses essential customer and competitor data, but innovation capabilities determine how this knowledge leads to better business results. Firms need innovation capability to execute market insights because without it they cannot benefit from customer and competitor intelligence [25]. Market orientation achieves economic benefits through innovation capability which serves as the essential mechanism [26].

Organizations that focus on customers actively collect data about what their customers want and what they expect. The conversion of market insights into innovative solutions stands as the only way to achieve performance improvement. Through innovation capability organizations can integrate customer knowledge into their product development and service operations and operational methods [27]. The process enables businesses to meet their current customers better while drawing in new customers which results in financial growth. The Saudi manufacturing sector discovers market-specific product customization and quality enhancement opportunities through customer-oriented market research. Organizations that use innovation to implement customer-based insights will achieve better economic results

Organizations that focus on competitors can enhance their performance by comparing themselves to rivals and discovering market weaknesses. Organizations need innovation capabilities to convert competitor intelligence into business performance results. Organizations with innovation capabilities create distinctive market strategies and develop unique products and processes which separate them from their competitors [20]. The analysis of competitors in Saudi manufacturing reveals international industry standards and modern technological developments. The implementation of innovative strategies based on competitor insights leads to enhanced productivity and market dominance which results in better economic performance [28].

H4: Innovation capability mediates the relationship between customer orientation and economic performance

H5: Innovation capability mediates the relationship between competitor orientation and economic performance

2.5 Attitude

The correlation between attitude and intention has been extensively studied in both consumer behavior and technology adoption research. According to the Theory of Planned Behavior [29], attitude is a key predictor of behavioral intention. In the context of AR marketing, studies have delved into how users' attitudes towards AR impact their willingness to engage in AR-related activities. Research by [30,31] within the framework of the Technology Acceptance Model (TAM), indicates that a positive attitude towards technology significantly influences the intention to use it.

The role of attitude as a mediator between informativeness and intention aligns with broader research in information processing and technology adoption. Early work by [32] underscore the importance of perceived information quality in shaping users' attitudes and subsequent behavioral intentions. Investigations into the interplay among trust, attitude, and intention have been conducted across various domains, including e-commerce and technology adoption. Studies by [33,34] demonstrate that trust has a substantial impact on users' attitudes towards technology, which in turn influences their behavioral intentions.

Moreover, studies on self-efficacy and technology adoption, rooted in Bandura's Social Cognitive Theory highlight the significance of users' confidence in their abilities in shaping their attitudes and intentions. Research by [31] support the notion that self-efficacy plays a crucial role in determining users' attitudes towards technology. The interconnections among perceived benefit, attitude, and intention align with established theories like the Technology Acceptance Model [35]. Previous research by [35,37,38] indicate that perceived benefits significantly influence users' attitudes towards technology, thereby impacting their behavioral intentions. Based on these insights, this study posits the following hypotheses:

H5: Attitude influences the intention to adopt AR marketing.

H6: Attitude mediates the relationship between informativeness and the intention to adopt AR marketing.

H7: Attitude mediates the relationship between trust and the intention to adopt AR marketing.

H8: Attitude mediates the relationship between self-efficacy and the intention to adopt AR marketing.

H9: Attitude mediates the relationship between perceived benefit and the intention to adopt AR marketing.

Figure 1 shows research model.

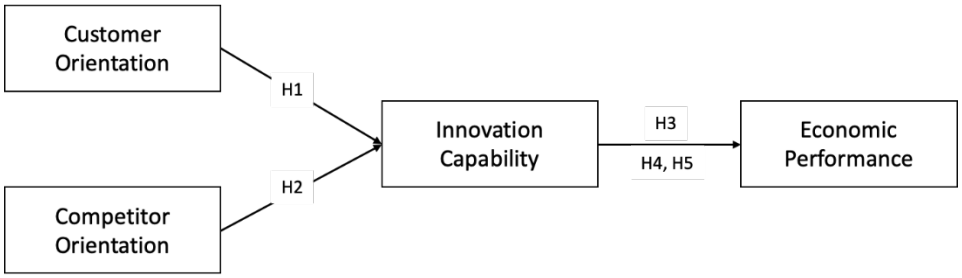

Fig. 1: Research Model

3. Methodology

The research design used quantitative methods to analyze how customer orientation and competitor orientation and innovation capability affect economic performance. The research used convenience sampling to gather data from manufacturing organization employees throughout Saudi Arabia. The data collection process occurred during September 2025. The researchers selected convenience sampling because it offered practical benefits that included easy access to participants and fast data collection and affordable costs. The research design enabled quick data collection from manufacturing staff members who demonstrated relevant expertise about customer orientation and competitor practices and innovation and organizational performance

A structured questionnaire was developed to understand how Saudi Arabian manufacturing staff perceive different organizational factors. The research used a five-point Likert scale to evaluate all measured constructs. The survey asked participants to rate their agreement with statements about customer orientation and competitor orientation and innovation capability through a five-point scale from strongly disagree (1) to strongly agree (5). The economic performance assessment used a five-point scale to evaluate how the main business line of the organization performed against competitors during the previous 12 months starting from well below average (1) up to well above average (5). The researchers adapted measurement items from previous studies to establish content validity for their research.

Data analysis was carried out using “structural equation modeling” (SEM) with “SmartPLS”. This technique was selected because it is well-suited for analyzing complex models with multiple constructs and mediating effects, while also handling measurement errors effectively. SEM with PLS allowed the study to assess both the measurement model (validity and reliability of constructs) and the structural model (hypothesized relationships)

4. Results

Table 1 presents the demographic profile of the study participants (n = 341). The gender distribution indicates that males constitute a larger proportion of the sample, representing 60% (203 respondents), while females account for 40% (138 respondents). This suggests that although both genders are represented, there is a noticeable tilt toward male participation. In terms of age, most respondents fall between 25–34 years (48%) and 35–44 years (40%), reflecting a predominantly young to mid-career workforce. A smaller proportion (12%) are within the 45–54 age bracket, highlighting that most participants are relatively early in their professional journey. Education levels reveal a well-qualified sample. More than half (61%) hold a bachelor’s degree, while 33% possess a master’s degree, showing strong academic backgrounds. A minority (6%) have associate degrees, indicating a smaller segment with lower formal education. Current job positions also show an interesting spread

More than half of the respondents (57%) are mid-level managers, which suggests that much of the study’s insights come from professionals with supervisory responsibilities. Senior managers represent 28% of the participants, while entry-level employees (11%) and executives/directors (3%) are fewer in number, reflecting a hierarchy concentrated at the middle management level. The data on years of experience mirrors the age and job position distributions. A significant proportion of participants (42%) have 2–5 years of work experience, and 38% fall in the 6–10 years category, suggesting that most respondents are building or consolidating their careers. A smaller group (12%) report over 10 years of experience, and only 8% have less than 2 years, indicating that the sample largely consists of seasoned professionals with substantial exposure to organizational dynamics.

Table 1: Demographic Profile of Participants (n=341)

Category	**Subcategory**	**Frequency**	**Percentage**
Gender	Male	203	60%
	Female	138	40%
Age	25–34	165	48%
	35–44	135	40%
	45–54	41	12%
Education Level	Associate degree	19	6%
	Bachelor's degree	209	61%
	Master's degree	113	33%
Current Job Position	Entry Level Employee	37	11%
	Mid-level manager	196	57%
	Senior manager	97	28%
	Executive/Director	11	3%
Years of Experience	Less than 2 years	26	8%
	2–5 years	143	42%
	6–10 years	131	38%
	10+ years	41	12%

Table 2 presents the results of the measurement model, which assesses the reliability and validity of the constructs used in the study. For customer orientation, the Cronbach's alpha (0.843), composite reliability (0.856), and average variance extracted (AVE = 0.714) are all above the recommended thresholds ($\alpha \geq 0.70$, CR ≥ 0.70, AVE ≥ 0.50). Item loadings range from 0.701 to 0.899, suggesting that each item contributes strongly to the construct. This confirms that the scale reliably captures how organizations prioritize customer needs and satisfaction. The competitor orientation construct also demonstrates solid measurement properties, with Cronbach's alpha at 0.748, composite reliability at 0.86, and AVE of 0.729. The indicators show consistent performance through their item loadings which range from 0.705 to 0.898

The results demonstrate that the construct successfully measures how organizations track competitors' actions and process this information for strategic responses. The innovation capability construct demonstrates strong reliability through its Cronbach's alpha of 0.833 and AVE of 0.689 while its composite reliability of 0.749 meets exploratory research standards. The construct demonstrates strong internal consistency through item loadings which range from 0.723 to 0.899. The construct demonstrates strong validity because it effectively measures how organizations handle innovative practices from start to finish. The reliability and validity of economic performance data are strong because Cronbach's alpha reaches 0.814 and composite reliability reaches 0.846 and AVE reaches 0.754. The financial performance indicators of return on investment and operating profits and cash flow receive strong measurement through item loadings that range from 0.719 to 0.808

Table 2: Measurement Model

Items and Constructs	Loadings	Cronbach's alpha	Composite reliability	Average variance extracted
Customer Orientation		0.843	0.856	0.714
CUO1: "Our business objectives are driven primarily by customer satisfaction"	0.884			
CUO2: "We communicate information about our customer experiences across all business functions"	0.891			
CUO3: "Our strategy for gaining a competitive advantage is based on our understanding of customer needs"	0.701			
CUO4: "We measure customer satisfaction frequently"	0.736			
CUO5: "We regularly survey end customers to assess the quality of our products and service"	0.899			
Competitor Orientation		0.748	0.86	0.729
CMO1: "Our salespeople regularly collect information concerning competitors' activities"	0.898			
CMO2: "Top management regularly discusses competitors' actions"	0.721			
CMO3: "We frequently track the market performance	0.731			

of key competitors"				
CMO4: "We frequently evaluate the strengths of key competitors"	0.705			
CMO5: "We attempt to identify competitors' strategies"	0.898			
Innovation Capability		0.833	0.749	0.689
IC1: "Innovation is readily accepted in program/project management"	0.843			
IC2: "Our firm's top management gives special emphasis to innovation"	0.724			
IC3: "Our firm constantly seeks new ways to better service our customers"	0.723			
IC4: "Our firm is able to change/modify our current approaches to meet special requirements from customers"	0.899			
IC5: "Compared to our competition, our firm is able to come up with new product offerings"	0.848			
Economic Performance		0.814	0.846	0.754
"Performance of the organization over the past 12 months compared to leading competitors"				
EP1: "Return on investment"	0.719			
EP2: "Operating profits"	0.745			
EP3: "Cash flow from operations"	0.808			

Table 3 presents the results of the discriminant validity test using the Fornell–Larcker criterion. Discriminant validity ensures that each construct in the model is empirically distinct from the others, meaning they capture unique aspects of organizational behavior and performance. The diagonal values in the table represent the square roots of the average variance extracted (AVE) for each construct, while the off-diagonal values show the correlations among constructs. For discriminant validity to be established, the square root of the AVE (diagonal) must be greater than the correlations with other constructs (off diagonal). In this study, all diagonal values exceed their corresponding inter-construct correlations. These findings confirm that the constructs are conceptually and statistically distinct, strengthening the rigor of the measurement model

Table 3: Discriminant Validity (Fornell-larcker criterion)

	Competitor Orientation	Customer Orientation	Economic Performance	Innovation Capability
Competitor Orientation	0.851			
Customer Orientation	0.745	0.812		
Economic Performance	0.781	0.776	0.824	
Innovation Capability	0.808	0.771	0.798	0.838

Table 4 presents the path coefficients for the structural model, testing the hypothesized relationships among customer orientation, competitor orientation, innovation capability, and economic performance. All five hypotheses (H1–H5) are supported, as evidenced by significant beta values, high t-statistics, and p-values of 0.00. The analysis confirms that H1 is accepted, showing that customer orientation positively influences innovation capability ($\beta = 0.521$, $t = 6.745$). This indicates that organizations driven by customer needs are more capable of developing innovative solutions. Similarly, H2 is accepted, as competitor orientation also exerts a positive effect on innovation capability ($\beta = 0.448$, $t = 5.257$), reinforcing that competitor-focused strategies stimulate innovative practices

H3 is accepted, highlighting that innovation capability has a very strong positive impact on economic performance ($\beta = 0.898$, $t = 42.211$). This underscores innovation as a direct and dominant driver of financial outcomes such as ROI, profitability, and operational performance. The mediation hypotheses are also supported. H4 is accepted, confirming that customer orientation enhances economic performance through innovation capability ($\beta = 0.468$, $t = 6.796$). Similarly, H5 is accepted, showing that competitor orientation improves economic performance indirectly via innovation capability ($\beta = 0.403$, $t = 5.096$)

Table 4: Path Coefficients

Paths	Beta	Standard deviation	T statistics	P values	Results
Customer Orientation -> Innovation Capability	0.521	0.077	6.745	0.00	H1 accepted
Competitor Orientation -> Innovation Capability	0.448	0.085	5.257	0.00	H2 accepted

Innovation Capability -> Economic Performance	0.898	0.021	42.211	0.00	H3 accepted
Customer Orientation -> Innovation Capability -> Economic Performance	0.468	0.069	6.796	0.00	H4 accepted
Competitor Orientation -> Innovation Capability -> Economic Performance	0.403	0.079	5.096	0.00	H5 accepted

Figure 2 presents the coefficient of determination (R-square) values further strengthen the explanatory power of the model. The results indicate that innovation capability has an R-square of 0.867, meaning that 86.7% of the variance in innovation capability is explained by customer orientation and competitor orientation. This is a very high value, demonstrating that market orientation factors are strong predictors of a firm's ability to innovate. The R-square value of 0.806 for economic performance shows that 80.6% of organizational performance variation stems from innovation capability together with the mediating effects of customer and competitor orientations. The model demonstrates strong ability to explain why different firms achieve varying levels of performance success

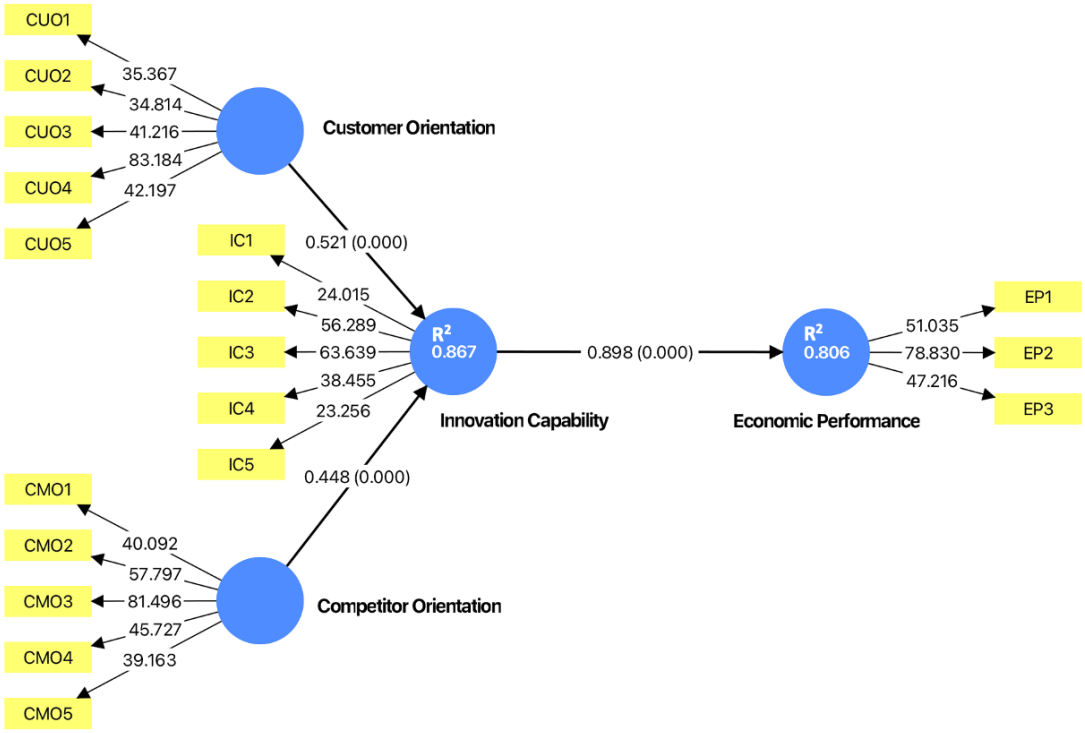

Fig. 2: Structural Model

5. Discussion

The research results show that organizations which focus on customers and competitors achieve better innovation capability which leads to improved economic results. The study reveals that organizations which focus on their customers achieve better innovation capability. Organizations that put customers first in their strategy development process become better at detecting new market requirements and they speed up their adaptation and create innovative solutions [10,16]. The analysis demonstrates that competitor orientation powerfully enhances innovation capability in organizations. Organizations that track competitor activities and predict their future moves develop enhanced innovation capabilities [33,37]. These two orientations work together to create a stronger capability for developing creative and effective solutions

The research established that innovation capability stands as the leading factor which determines economic performance. The study demonstrates that innovation functions as a fundamental performance factor which surpasses its role as a supporting function [38]. Organizations that dedicate resources to innovation development achieve better financial outcomes and enhanced operational results and maintain their market leadership [34]. The mediation results demonstrate that economic performance benefits from customer and competitor orientations through their ability to create innovation capability. Market orientation by itself does not lead to superior performance but its actual value emerges when organizations convert it into innovative operational practices. The R-square values demonstrate the model's ability to explain the data. With innovation capability explaining 86.7% of its variance through customer and competitor orientations, and economic performance

explained by 80.6% through innovation capability, the model demonstrates high predictive power. This confirms that market orientation and innovation capability are central to achieving superior financial outcomes [28].

The study strengthens the understanding of how customer and competitor orientations function as complementary drivers of innovation. By confirming innovation capability as a central mediator, the findings expand the conceptualization of how market orientation leads to performance. This adds depth to existing frameworks and literature by highlighting innovation as the mechanism through which strategic orientations generate value [31,35].

For managers, the findings emphasize the need to go beyond simply collecting customer feedback or monitoring competitors. These insights should be integrated into innovation processes to create products, services, and strategies that directly impact performance. Firms that fail to make this connection may miss out on the full benefits of market orientation. The results also suggest that balancing customer and competitor orientations is essential focusing exclusively on one may limit the potential to innovate effectively. The evidence highlights the importance of fostering innovation-friendly environments. Decision-makers should encourage a culture where market insights are systematically transformed into new solutions. This requires investment in innovation structures, resources, and leadership commitment to ensure long-term competitiveness

Despite its contributions, this study has some limitations. The use of convenience sampling restricts the generalizability of results beyond the Saudi manufacturing sector. The cross-sectional design also prevents examination of how these relationships evolve over time. In addition, relying on self-reported measures may introduce bias, and the focus on a single context limits broader applicability. Future research could address these issues by using probability-based sampling, adopting longitudinal designs, incorporating objective performance indicators, and testing the model in different industries or countries

6. Conclusion

This study set out to examine how customer orientation and competitor orientation influence innovation capability and, in turn, economic performance within the Saudi manufacturing sector. The findings confirmed that both customer and competitor orientations significantly enhance innovation capability, which then serves as the key driver of superior economic performance. All five hypotheses were accepted, and the high R-square values demonstrated the strong explanatory power of the model. The results emphasize that market orientation alone does not directly guarantee better performance; its real value emerges when it is translated into innovation. Innovation capability acts as the bridge, enabling organizations to transform market insights into tangible economic gains. For managers, this highlights the importance of balancing attention to both customers and competitors while embedding these insights into innovation practices to sustain long-term competitiveness. The study reinforces the central argument that market orientation fuels innovation, and innovation, in turn, drives economic success. Firms that strategically align with customers and competitors, and translate that alignment into innovation, are better positioned to achieve sustainable performance

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