

Chapter 1 Introduction

Over the past decades, small and medium sized enterprises (SMEs) have made an important contribution to global economic growth and to the fast industrialization process. SMEs have made excellent progress toward promoting economic development, expanding international trade, creating job opportunities and raising national income in many countries. According to Desouza and Awazu (2006), SMEs are the largest provider of employment in most countries, especially for new jobs. This significant impact on employment occurs because these firms tend to be more labor-intensive than large enterprises.

In most national economies, SMEs comprise more than 95% of market participants and employ 60-70% of the workforce, and they represent 90% of the enterprises (OECD, 2000; Eurostat, 2006). In Asia-Pacific Economic Cooperation (APEC) member economies, SMEs account for about 90% of the total firms and provide between 32% and 84% of the total employment of individual APEC economies (Desouza & Awazu, 2006). The importance of SMEs is the focus of a number of current research activities, and several scholars agree that SMEs are one of the key factors in promoting economic development (Birch, 1979).

Success for SMEs

Rapidly changing and competitive market pressure has forced SMEs to seek new and competitive survival strategies through a focus on customer needs and long-term profitability (Becherer, Halstead, & Haynes, 2003). In a number of studies concerning a company's competitiveness, many scholars have suggested various strategies for improving SMEs performance. Tzokas, Carter, and Kylaopolosp (2001) stress that the following SME activities are determinant factors associated with a high performance: (a) the development of marketing

plans with an emphasis on marketing communications; (b) the development of a climate of trust with customers, suppliers, and financial organizations; (c) a clear understanding of the competitive environment; (d) the ability to offer customer payment assistance; and (e) the availability of working capital. Mambula (2004) noted that investing in new equipments and developing niche marketing strategies contribute SMEs' profitable performance. Chiao, Yang and Yu (2006) suggested that internationalization and investment in research and development (R & D) are important for SMEs success. Lin (1998) stressed the following six factors as contributing to SMEs' success: (a) qualified owner/ managers who have good knowledge of the market and industry; (b) close relationship with customers and commitments to quality of product and/or service; (c) innovative and flexible marketing and technology; (d) well controlled costs to focus on profits not sales; (e) good relationship with employees; and (f) operating in a growing market.

In summary, SMEs pursue the strategies of satisfying customer needs and preferences in order to create profit through achievement of innovation. Suggested determinant factors for SMEs' performance can be categorized by the following two concepts: (a) efficient and well developed knowledge or information management capacity from internal and external business environments and (b) translation of this theory or information into action through novel processes including close relationships with partners.

Market Orientation, Learning Orientation, and Innovation

For the determinants of firms' performance and profitability, many marketing scholars recently have centered their attention on one or more of the following three major topics: market-orientation, learning orientation, and innovation (e.g., Han, Kim, & Srivastava, 1998; Hurley &

Hult, 1998; Hyvonen & Tuominen, 2006; Keskin, 2006; Kohli & Jaworski, 1990; Slater & Narver, 1995). The market orientation concept was first examined as a research topic by Kohli and Jaworski in 1990. In their research, they viewed market orientation as both a behavior and a process, saying that “Market orientation refers to the organization wide generation, dissemination, and responsiveness of market intelligence” (p.3), while Narver and Slater (1990) viewed marketing orientation as a culture “... that (1) place[s] the highest priority on the profitable creation and maintenance of superior customer value while considering the interests of other stakeholders; and (2) provides norms for behavior regarding the organizational development and responsiveness to market information” (p.67). Narver and Slater measured market orientation using the concepts of customer orientation, competitor orientation, and network. Thus, market orientation is viewed by many researchers as encompassing the cognitive, behavioral, and cultural marketing concepts of firms to create customer satisfaction (Deshpande & Webster, 1989). In other words, market orientation requires information gathering processes from customers, competitors, and business environments; information dissemination process to the needed parties; and implementation processes to take action on the information that was gathered.

In the early 2000s, businesses operating in turbulent environments are looking for new means of survival such as new products, new strategies, new customers, new technologies, and new systems to differentiate their operations from the business of others. Learning orientation and innovation are key solutions to achieving this desired competitive advantage over rival firms because these processes provide firms with approaches differing from their competition (Hyvonen & Tuominen, 2006; Lumpkin & Dess, 1996). Learning orientation requires adaptation of new ideas that have the potential to change behavior, systems, and/or strategies, which thereby

can lead to improved performance (Fiol & Lyles, 1985; Huber, 1991; Sinkula, 1994; Slater & Narver, 1995). This adaptation includes the following cultural values of a firm: a commitment to learn, open-mindedness, a shared vision of learning, and interfunctional cooperation. Cultural values within a firm are an important aspect of learning orientation because they stimulate a firm's desire to learn, to create, and to use knowledge (Baker & Sinkula, 1999; Hyvonen & Tuominen, 2006; Sinkula, Baker, & Noordeweier, 1997; Slater & Narver, 1995). The learning orientation of an organization or organizational learning is very similar to innovation and the differences are often ambiguous because of overlapping meanings (Hurley & Hult, 1998). According to Thompson (1965) innovation in an organization or firm is "the generation, acceptance and implementation of new ideas, processes, products or services" (p.36). Innovation is also defined as a translation process of changing opportunity into new ideas and an operational process of putting these new ideas into practice (Damanpour, 1991). Due to the overlap in meanings, innovation is often overlooked in market and learning orientation studies (Hurley & Hult, 1998). To clarify the differences, Hurley and Hult examined the relationship between learning orientation and innovation and found that learning orientation mediates innovation and finally increases a firm's performance.

Relationship among Market Orientation, Learning Orientation and Innovation

Market orientation, learning orientation, and innovation are used as synonyms for a variety of organizational activities within a business environment and seem to have no boundaries; however, many researchers have developed theoretical and empirical-based frameworks that show the relationship among two or more of these variables. Slater and Narver (1995) provide a theoretical background explaining that learning orientation enhances market

orientation. Hurley and Hult (1998) provide empirical evidence that market orientation and learning orientation are the antecedents of innovation and that market orientation is affected by learning orientation and, likewise, innovation is increased by market orientation. Therefore, all three of these factors are perceived to increase a firm's performance.

Research to support and examine these relationships have been conducted by several researchers and can be categorized into the following four groupings: (a) market orientation and a firm's performance (Deshpande & Webster, 1993; Han, Kim & Serivastava, 1998; Kohli & Jaworski, 1990; Slater & Narver, 1994); (b) market orientation, learning orientation and performance (Sinkula, Baker, & Noordewier, 1997; Slater & Narver, 1995); (c) learning orientation and performance (Fiol & Lyles, 1985; Mavondo, Chimhanzi & Stuwart, 2005; Sinkula, 1994); and (d) market orientation and innovation (Aldas-Manazano, Kuster, & Vila, 2005; Han, Kim & Serivastava, 1998). The resulting relationships are shown in the following conceptual model (see Figure 1).

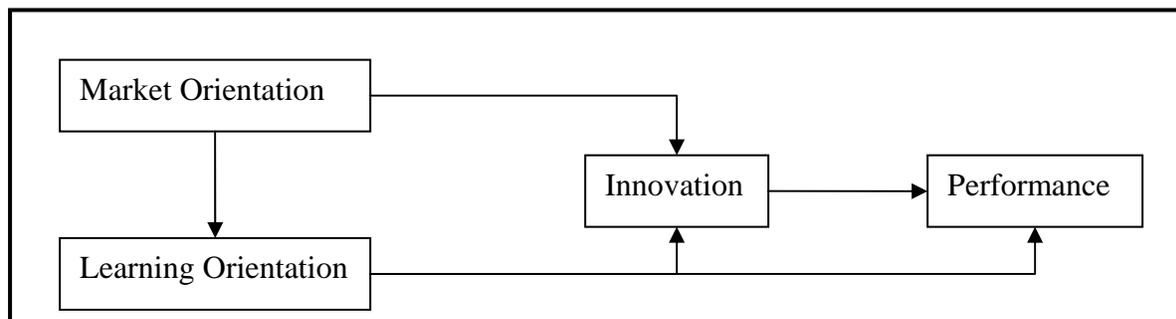


Figure 1. Factors that increase a firm's performance based on studies of large firms or mixed-size firms

Antecedents of Performance within the Context of SMEs

Much of the research on these antecedents of performance is based on the study of large firms or samples with a mixture of large firms and small firms; however, research has shown that the operation and functioning of SMEs are very different from larger firms (Hill, 2001). SMEs

are not simply smaller versions of larger firms; therefore, the variables of market orientation, learning orientation, and innovation may need to be considered differently from the theoretical definitions developed for larger firms. For example, Keskin (2006) noted that SMEs informality, flexibility, and lack of structured and sequential systems allow market orientation, learning orientation, and innovation to remain incomplete for these smaller sized firms. Reinforcing this point, empirical evidence supports that, for SMEs, market orientation is the antecedent of learning orientation and market orientation increases SMEs innovation capability and performance through learning orientation (Keskin). Another empirical study of SMEs found that market orientation and learning orientation enhance innovation and innovation increases SMEs' performance (Hyvonen & Tuominen, 2006).

The studies involving the four variables (i.e., marketing orientation, learning orientation, innovation, and performance) and SMEs can be categorized into the following groupings: (a) market orientation and SMEs' performance (Becherer, Halstead & Haynes, 2003; Horng & Chen, 1998; Pelham, 2000; Tzokas, Carter & Kylaopposp, 2001); (b) learning orientation, innovation, and SMEs' performance (Choueke & Armstrong, 1998; Sadler-Smith, Spicer & Chaston, 2001); (c) market orientation, innovativeness, innovation, and performance for SMEs (Verhees & Meulenber, 2004); and (d) overall relationship of market orientation, learning orientation, innovation, and SMEs' performance (Keskin, 2006; Hayvnen & Tuominen, 2006).

These studied show that the factors of marketing orientation, learning orientation, and innovation when applied to SMEs differ from their relationship as described within the context of larger firms. The difference is that the role of market orientation to SMEs' performance and innovation is controversial in the research on SMEs. While Keskin (2006) and Hyvonen and Tuominen (2006) found that market orientation is not significant or is partially significant to

SMEs' performance, Horng and Chen (1998), Pelham (2000), and Verhees and Meulenber (2004) found a positive influence from market orientation to SMEs' performance. The resulting relationships are shown in the following conceptual model (see Figure 2), with the controversial relationship shown as a dotted line.

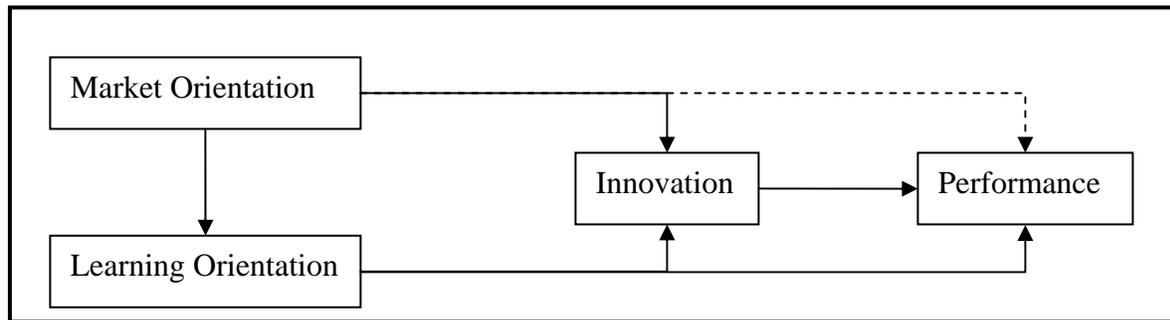


Figure 2. Factors that increase SMEs' performance based on studies of SMEs

Statement of the Problem

Most academic literature related to marketing orientation, learning orientation and innovation focuses on finding the relationship between one or two of these variables and the performance variable (see previous listing of studies). Few studies have focused on the relationship among market orientation, learning orientation, innovation, and performance (Hurley & Hult, 1998), and few have examined the relationship of the four variables within the SME context (Keskin, 2006; Hayvnen & Tuominen, 2006). In addition, no studies were found that examined these variables within SMEs in the apparel industry. Due to the significant contribution of SMEs to the economic development of many countries and the large number of SMEs in the apparel industry, increasing interest has been focused on the viability of market orientation, learning orientation, and innovation as ways to improve performance advantages and the need to examine whether the findings of previous studies can be generalized to SMEs (Becherer, Halstead & Haynes, 2003; Hayvnen & Tuominen; Horng & Chen, 1998; Keskin).

After market orientation theory was established in the mid-1990s, researchers began to broaden the market orientation application to SMEs. Given the short history of market orientation, however, only a few SME studies have investigated the relationship among market orientation and other variables; therefore, there is limited evidence to support that these indicators are critical to SMEs' performance, and even less evidence for their impact within SMEs in the apparel industry.

Problems and a networking solution for the South Korean textile and apparel industry

Kohli and Jaworski (1990) proposed that “the greater the competition, the stronger the relationship between a market orientation and business performance” (p.15). Because the business environment is dynamic, businesses must constantly augment their products and services to create customer satisfaction. Thus learning orientation becomes a competitive advantage (DeGeus, 1988; Slater & Narver; 1995; Williams, 1992). Competition and change are particularly pertinent environmental considerations for the textile and apparel industry. The global textile and apparel industry has undergone rapid change due, in large part, to harsh competition since China began to reform its economy under the Open Door policy in 1978, which was implemented to revitalize its depressed economy (Chi & Kilduff, 2006; Kim, Kwak, & Cho, 2006). After this change, the role of China, as an increasingly powerful global competitor, is emphasized in the textile and apparel industry given its membership in the World Trade Organization (WTO) in 2001 and the elimination of quotas in 2005 (Kim, Kwak, & Cho, 2006).

These changes for China have impacted the textile and apparel industry in many countries. In the United States, the continued increase of imports of apparel products from China, before and after the WTO changes, has forced many U.S. apparel firms out of business and has led to the loss of thousands of apparel manufacturing jobs (Dickerson, 1999). In the Newly

Industrialized Countries (NICs), one of the biggest residual effects of China's entry to the WTO is the appearance and growth of textile and apparel manufacturing firms and the associated distribution centers in China and the reduction of these facilities in the NICs. Due to its low cost labor, readily available and low cost industrial land, and a skilled workforce, China is an ideal production center for businesses that are exporting goods into other countries, including apparel products (Lall & Albaladejo, 2004). Future changes in the WTO are predicted to further intensify the competition problems in the industries, including apparel firms, for many NICs including South Korea (Son, Kim, & Ji, 2007).

According to Slater and Narver (1995), a geographic cluster of firms can be an important factor to performance success. They cite that the high-tech firms in Silicon Valley are more effective and efficient in their functions, especially the function of informal relationships. Silicon Valley has temporary project teams, which involve a wide range of innovative manufacturing, marketing, and management activities. From this example, Slater and Narver hypothesized that a geographic concentration of firms enhances learning orientation and innovation and increases a firm's performance. The benefits of geographic concentration in South Korea might be similar to the Silicon Valley case. The South Korean apparel and textile industry's geographic concentration in the Dong Dae Moon (DDM) region and the Gu Ro fashion valley, both within the city of Seoul, as well as the fashion valley in Dae Gu in Kyoung Sang Province, are similar to the geographic size of Silicon Valley and have the potential to generate agility and flexibility within the South Korean textile and apparel firms. Dong Dae Moon has been an important wholesale and manufacturing center since 1905 and is comprised of 26 markets and 2,600 shop stands. The benefit of the geographic concentration across suppliers and vendors in areas such as fabric trims, sewing facilities, retail, and related industries is considered a key to the South

Korean apparel and textile industry (Kim, 2003; Kim, & Kincade, 2006). As an example of the benefits of geographic proximity, apparel manufacturers in the DDM can complete small apparel items within 48 hours from design idea to retail rack (Jin & Moon, 2006) as compared to 12 to 40 weeks in the average manufacturing environment (Kincade, 1995).

In the national context, the agility of firms in the South Korean textile and apparel industry is hypothesized to rely on personal networks rather than employing extensive new technology or implementing formal relationships through contracts (Jin & Moon, 2006). In the business context of networks, the process of self-directed, work-based, and informal learning is dominant in SMEs and should facilitate flexibility and adoptability (Anderson & Boocock, 2002). In order to explain the performance of NICs in the apparel sector, and specifically South Korean textile and apparel SMEs, the variables of market-orientation, learning orientation, and innovation are thought to be insufficient to explain performance based on the highly competitive business environments for these firms. Informal relationships that emphasize unlimited favors to the members of the network through personal relationships seem to be a key reason for textile and apparel firms' successful performances in NICs such as South Korea. Due to the importance of informal relationships in SMEs in NICs, this variable is to be considered as an antecedent of performance in this study in addition to the variables of market orientation, learning orientation, and innovation.

Purpose and Objectives

The global apparel industry is characterized as a fragmented industry with SMEs as a key feature in many countries (Hammond, 1993). While most people in the apparel industry recognize the importance of SMEs, limited research has been undertaken to examine the

theoretical explanations about the successful factors for SMEs (Tzokas, Carter, & Kylaopposp, 2001). This study proposes to address the following research questions:

1. How are market orientation, learning orientation, and innovation related to SMEs' performance in the South Korean apparel industry?
2. How are informal relationships in South Korean apparel SMEs related to market orientation, learning orientation, and innovation?

The research on the performance of SMEs in other industries (e.g., rose growers, consumer products, business products, and business and consumer services) and in other countries (e.g., Turkey, Finland, and Germany) may provide insights into potential methods for better performance of SMEs in the apparel industry, specifically those in South Korea. The purpose of this study is to generalize the findings about market orientation, learning orientation, and innovation to the apparel context in South Korea, specifically to SMEs, and, in addition, to investigate the role of informal relationships in SMEs within the presence of these other variables.

The objectives of this study are as follows:

- a. To identify the relationships among market orientation, learning orientation, innovation, and performance for SMEs in the apparel sector of the South Korean apparel industry.
- b. To test the role of informal relationships in the proposed model in the apparel sector of the South Korean apparel industry.

The Importance of the Study

Proposed marketing concepts such as market orientation, learning orientation, and innovation and their impact on a firm's performance was examined among SMEs in the South Korean apparel industry. This study contributes to the validation of the proposition suggested by many authors concerning the relationship among market orientation, learning orientation, and/or innovation by applying those concepts to the apparel SMEs in Korea. In addition, in academic research, there is no study, which examines the role of informal relationships in conjunction with market orientation, learning orientation, innovation on a firm's performance. This study investigated the importance of informal relationships in apparel SMEs especially in the NIC context of South Korea.

The examination of firms within the apparel industry in South Korea follows the suggestion from Keskin (2006) that samples from homogenous groups, (i.e. within one industry and one country) can provide deeper understanding about relationships among market orientation, learning orientation, innovation, and performance. The findings from this research are beneficial to academic researchers because the results of this study provide in-depth and broadened knowledge about suggested relationships among four variables (i.e., market orientation, learning orientation, innovation, and performance) that are rarely examined within one study, along with the information pertinent to the impact of the informal relationship variable in this mix. For SMEs owners/managers, this study provides additional information for strategic marketing processes that may improve performance in a competitive environment and information about the potential benefits of informal relationships, which can be developed without large financial investments or high levels of technology.

Assumptions and Limitations

This study is based primarily on the assumptions from previous studies primarily based on large firms that market orientation is the antecedent of learning orientation and that learning orientation augments SMEs' innovation capability. Then, those combined factors are assumed to influence positively SMEs' performance. In addition, researchers and practitioners present the assumption that there must be a significant but previously undefined role for informal relationships among the variables of market orientation, learning orientation, innovation, and performance, especially among SMEs.

This quantitative study of management aspects has limitations. This study used the methods of data collection involving single sourcing and self- and retrospective reporting. These methods may affect the interpretation of wording and responses within the survey. Given that most marketing and management concepts are intangible, survey questions may be interpreted differently according to various managerial perceptions. Although this fact is generally a problem in any management study, this study can not avoid this issue. Some responses might include the bias of a manager, as dictated by his/her education, cultural backgrounds, age and other person variables. For this reason, some results of this study are not generalizable to firms in Western or developed countries because many Asian informal relationships are conceptualized based on cultural values developed through Confucianism.

Chapter 2 Literature Review

Overview of the Global Textile and Apparel Industry

The textile and apparel industry has played an important role in world economic and social history. The critical role of the textile and apparel industry in economic history began in the textile sector with innovations in spinning and weaving (Dickerson, 1999). Since then, many countries have utilized the economic development derived from the activities of the textile and apparel industry; specifically those in the apparel sector because of its labor intensive characteristics and low entry barriers. With the high labor component in manufacturing the apparel product, the apparel sector of this industry consists of many SMEs. In contrast, fiber manufacture and fabric manufacture are often performed by large corporations that operate equally large manufacturing facilities that are generally automated with limited labor components (Kincade, 2008). Recently, the textile and apparel industry including household goods accounted for the majority of businesses in the world economy, comprising more than 7% of world trade in 2005 (WTO, 2005).

Due to the very limited resources available in most SMEs, these firms are encouraged by industry analysts to establish and maintain lasting relationships with suppliers who are very beneficial in terms of cost, risk, and time efficiencies. Based on a study of 108 firms in the apparel sector, SMEs owner/managers often view their suppliers as contributors who enable overall strategic organizational effectiveness (Kincade, Vass, & Cassill, 2000; Lee & Kincade, 2003). Often, SMEs' ability to meet customer needs depends heavily on their suppliers' capability to provide both raw materials and services. In addition, with limited resources SMEs rely on the outsourcing process, depending on other firms to supply part of the manufacturing or

other operational processes that might be handled in house within a larger firm. According to a conceptual study of SMEs, this outsourcing by SMEs can result in faster product development, shorter time to market, reduced costs and improved quality. In respect to time and cost reduction of these supply chain activities, the role of suppliers is significant for SMEs (Hvolby & Trienekens, 2002). In addition to general operational reductions, time to market becomes a vital factor to textile and apparel firms that are dependent on the sale of fashion goods that change frequently (Kincade, Regan, & Gibson, 2007).

Products and operations in the textile and apparel industry are characterized by fashionability and seasonality (Kincade, 2008; Ko & Kincade, 1998; Lee & Kincade, 2003). Change with time and across seasons is a vital part of the competitiveness of these products. These unique features of the industry have an impact not only on manufacturing strategy and inventory management but also on the increase in uncertainty in demand for the products (Lee & Kincade, 2003). Unpredictable demand for fashion goods causes an inaccurate forecast of a market because unavailable market information can not help planning strategy. Increased consumers' demand for fashion goods and increased numbers of SMEs in the global industry result in high competition in the marketing and manufacturing of a broad range of apparel products (Lee & Kincade, 2003). Intense competition in the textile and apparel market press manufacturing firms to move their production operations from developed countries with high labor costs to undeveloped and developing countries with lower wage standards in order to lower production costs.

Although firms in developing countries and NICs have been able to export apparel products at lower prices, they are losing their competitive edge, as their markets mature. To survive from global competition, these firms are required to make overall strategic changes.

These changes include use of the latest technology and other marketing and management change strategies to improve cost and quality (Middleton, 2004).

Competitive and dynamic market pressure in the apparel sector forces textile and apparel firms to be innovative in order to become both competitive and profitable. The consumer in the 2000s is more fashion oriented and exposed to more information. Consequently, they have become more demanding (*Economist*, 2005). Traditionally, the textile and apparel industry has had four to five seasons (i.e., introductions of new product lines) in a year; now the turn time has become fast with eight to ten seasons per year (Middleton, 2004). Some firms such as Zara and H&M are turning their inventory as quickly as consumer needs and preferences change, often turning inventory as frequently as once each week. These firms are creating and selling what is being called “fast fashion” (Hayes & Jones, 2006). To respond to this demanding consumer, firms are required to exhibit Quick Response including fast innovation of products rather than simply changing color every season (Kincade, 1995; Middleton, 2004; Perks, & Jeffery, 2006).

Competitive Strategies in the Global Textile and Apparel Industry

For firms in the apparel sector as well as other industries, the rapid development of technology stimulates change. With the development of information technology (IT), information collection methods about customers and future customers are plentiful and diversified; manufacturing speed has increased for some products; and inventory management, distribution and shipping have experienced reduced time (Kincade, Vass, & Cassill, 2001; Middleton, 2004; Meichtry, 2007). In addition, some textile and apparel firms use new technology to design mass customized products in order to reduce production costs at low volumes, to achieve economies of scale for product innovation, and to reduce time to market (Kincade, Regan, & Gibson, 2007; Loker, 2002; Miller & Blais, 1993). Technology and other

innovation processes in the textile and apparel industry can help firms achieve production systems and supply chain processes that create a global chain of activities linked through a variety of contractual and ownership relations (Richardson, 1996). In addition, through the use of technology, apparel manufactures can (a) create products that meet customers' needs and preference; (b) deliver products in time; and (c) sell products easily (Kincade, Vass, & Cassill, 2001).

Innovation in the textile and apparel industry has been exhibited in several ways within organizations structures and marketing strategies including the following strategies: Total Quality Management (TQM), Business Process Re-engineering (BPR), and Quick Response (QR) including Computer Aided Design (CAD)/Computer Aided Manufacturing (CAM) and Electronic Data Interchange (EDI) (Kincade, 2002; Middleton, 2004; Miller & Blais, 1993; Richardson, 1996). Kanji (2002), in his book on quality, viewed TQM as an organization's culture that fosters commitment to finding ways to meet customers' needs. TQM emphasizes cooperation of technology and management for effective management (Sa & Abrunhosa, 2007). Implementation of TQM requires few changes within a firm and is based on existing systems (Middleton, 2004). BPR is another business process that is being used by apparel firms to be innovative. Christopher (2000) suggested in his conceptual study that re-engineering does not attempt to improve a flawed system. Rather, it requires radical change and creates a completely new system TQM and BPR used together have elements that can revitalize in an organization (Middleton, 2004).

QR is an integrated marketing and manufacturing strategy for textile and apparel manufacturers and retailers. With the demand for fast fashions, the retailer, as a buyer, prefers small orders for first purchases with frequent reorders in order to maintain a small inventory

level in the store and a constant stream of innovative and new products for the consumer (Ko, Kincade, & Brown, 2000; Lee & Kincade, 2003). Innovative suppliers, which keep lean or low levels of inventory, can be flexible to respond quickly to these retailers' fast changing demands. QR activities enable manufacturers to design and produce products in response to point-of-sale (POS) data from retailers in order to deliver desired styles and quantities during the season. Implementing QR means that the firm's management is seeking a more efficient, less risky, and more effective operation (Kincade, 1995; Ko & Kincade, 2007). Many technologies are used when implementing QR to increase process speed and to improve communication of information. For example, CAD/CAM equipment provides an efficient design process. Automatic transfer of design information to automatic cutting and sewing is facilitated by CAD/CAM systems (Ko & Kincade, 1998). With QR, all firms involved within one supply chain can interchange information through EDI. QR processes require strong ties with supply chain members and involve information sharing among members to develop customer satisfaction (Ko & Kincade). With QR, retailers can participate in manufacturers' merchandising and assortment planning stages, and suppliers and retailers can also participate in the design process (Kincade; Ko & Kincade; Richardson, 1996).

The South Korean Textile and Apparel Industry

According to Choi (2005), the South Korean textile and apparel industry began in the 1910s with manual labor utilized primarily in the apparel sector. Since the early 1990s, this industry has played a major role in the economic growth in South Korea. In the early 2000s, the textile and apparel industry in South Korea was comprised of 18,989 large and small firms and employed 265,000 workers. Although less important to the economy in recent decades than in the early 1900s, these firms and workers account for approximately 8% of the total national

export (Choi, 2005). In 2005, textile and apparel firms shared approximately 30% of South Korean manufacturing in number of firms, and 76% of the textile and apparel industry consists of SMEs. In addition, approximately 18% of the South Korean labor pool is employed in textile and apparel firms and 79% of these workers are employed in SMEs (Small and Medium Enterprise Authority and Federation of Small Business, 2006). In addition, South Korea is the fifth largest global exporter of textile and apparel products, after China, Italy, United States and Germany (Korea Federation of Textile Industries, 2002). Although SMEs are a major part of the textile and apparel industry in South Korea, this industry shows a very complex and diverse composition in other firm characteristics (Choi, 2005).

The South Korean textile and apparel industry has been exposed to fierce competition since the elimination of many world import quotas (Choi, 2005). In addition, the South Korean domestic economy has experienced the results of a long-term economic depression, compounded by cross border investments and joint ventures by South Korean firms with firms in newly developing countries such as China and Vietnam. Although the export of textile and apparel goods is increasing in quantity, the unit price that can be achieved has continually decreased for South Korean firms, which must face competition from firms in recently developing countries, such as China and Vietnam, which operate with even lower wage rates. The influx of international products into the country is another reason the South Korean textile and apparel market is losing market share in textile and apparel sales. Many of the problems facing the South Korean textile and apparel industry – harsh competition, dramatic changes, long-term depression, difficulties in exploiting technology, constrained managerial capabilities, low productivity, regulatory burdens – have been experienced previously by more industrialized countries and

have become more acute in a global market with a technology-driven environment (Choi; Jin & Moon, 2006; Son, Kim, & Ji, 2007).

Firms in the South Korean textile and apparel industry have been unable to respond appropriately in a rapidly changing market because most of these firms depend on sales to Original Equipment Manufacturing (OEM) firms (Choi, 2005). According to Porter's (1998) diamond theory, a nation's competitiveness is determined by the following four factors: (a) firm strategy, structure, and rivalry; (b) competitive advantage factor condition; (c) related and supporting industries; and (d) demand condition (Jin & Moon, 2006). Because of their dependence on other organizations to complete their marketing and product design processes, South Korean textile and apparel firms have been unable to meet Porter's requirement for competitive advantage (Jin & Moon). When evaluated against the diamond theory factors, they have had insufficient capability on their own to develop new products and specialized products to attract customers. To have competitive advantage in the global market, textile and apparel SMEs in South Korea need to upgrade their management skills, their use of information, and their technology base. Fostering changes in technology and innovations in textile and apparel products through implementation of marketing strategies may be the most expeditious path to stimulate the South Korean textile and apparel industry (Choi).

Small and Medium Sized Enterprises (SMEs)

While many research studies have been conducted on various aspects of large firms, less attention has been concentrated on small and medium sized enterprises (SMEs). Although, SMEs have contributed for hundreds of decades to the economic growth of many countries, academic researchers' interest in SMEs has increased only in the past few decades. The theory of SMEs'

operations remains immature in the sense that there have been limited attempts to investigate, either empirically or theoretically, what SMEs are and how they function. According to some scholars, small firms are characterized by uncertainty, dynamism, innovation, and flexibility. Uncertainty generates dynamism, innovation, and flexibility, which are found in SMEs with limited resources (Hill, 2001). The term SMEs not only refers to the small size of the firms but also reflects how they interact with their environments relative to their size and in comparison to larger firms (Shuman & Seeger, 1986). SMEs are found to be different from larger firms in their managerial style, ownership, and independence (Coviello & McAuley, 1999).

SMEs usually have limited management capacity and insufficient capabilities for accessing and analyzing information because of their small size and lack of resources (Hill, 2001). A low entry barrier is another SME feature, particularly in the textile and apparel industry, which leads to large numbers of small firms and creates competitive market pressures. With limited resources, SMEs are increasingly focused on improved production methods; penetrating marketing strategies; and management capabilities of dynamism, flexibility and innovative-drive to sustain and strengthen their operations. In addition, management personnel in SMEs often work harder than their counterparts in larger firms to maintain business because they face competition both from larger firms and other small firms (Hauseman, 2005). Although these concepts about SMEs are generally accepted, there is a lack of quantifiable evidence that demonstrates a clear definition of SMEs in management and marketing terms.

The classic definition of SMEs is for firms to be classified by the number of employees and/or by the value of their assets or net worth. In general, numerical definitions of an SME usually use one of the following measurements: number of employees, amount of inventory held in one year, or the value or net worth of the firm. The size classification varies within geographic

regions and across countries relative to the size of the economy. A minimum as well as a maximum size is often set for SMEs (Desouza, & Awazu, 2006). According to the Department of Trade Industry in the United Kingdom (UK) (DTI, 2005), SMEs are firms whose employees are numbered less than 250 people. As shown in the table below, the European Commission upgraded its definition of SMEs in May 2003 for both number of employees and net worth (EU, 2006).

Table 1.

SME categories in the European Union (EU)

Enterprise Category	Number of Employees	Net Worth
Micro	Less than 10	Less than Euro 2 million
Small	Between 10 and 49	Euro 10 million to 49 million
Medium	Between 50 and 250	Euro 50 million and up

Note: Source of data is from EU (2006)

Among SMEs in various countries, many of these firms are in the small category instead of the medium-size category. For example, in the European Union (EU), SMEs are economically important with 99% of an estimated 23 million enterprises defined as SMEs. These firms provide approximately 75 million jobs; however, most of these SMEs or about 18 million firms are small enterprises. Most of these EU firms employ fewer than ten people and only 35,000 firms employ more than 250 people, and the average European firm provides employment for four people, including the owner/manager. SMEs account for more than “[t]wo thirds (67.2%) of the non-financial business economy workforce, and 57.3% of its value added” (Eurostat, 2006).

According to EUROSTAT, among these European SMEs, firms in the micro category account for 34% of the firms, firms in the small category account for 19%, and firms in the medium-size

account for 13%. More than one-half (52%) of the private sector network within the EU represent SMEs with the average inventory level of approximately 500,000 Euros.

General definitions of SMEs are provided by many researchers. An itemization of these definitions is provided in Table 2. They contain both conceptual and numerical definitions.

Table 2.

Summary of Definition of SMEs

Author	Definition
Chang & Powell (1998)	"...SMEs are the fastest growing segment of most economies and are perceived to be more flexible and adoptable in terms of structure and speed of response than larger organizations....." (p.199)
Chiao, Yang, & Yu (2006)	"...In accordance with Taiwan's official definition of SMEs, we have classified firms with less than 200 employees as SMEs.5 Firms larger than this have been classified as large enterprises. This relatively strict definition has its limitation to compare with other studies which as generally defined less than 500 employees by the American Small Business Administration (SBA)." (p.481)
Hill (2001)	"It is also clear that organizational structures in small firms are much less rigid, sophisticated and complex than large firms. This means that the more fluid arrangements that prevail in small firms do not inhibit the creativity and flexibility which are necessary for continued success". (p.178)
Kock (as cited in Hill, Nancarrow, & Wright, (2002).	"... [SMEs] play a significant role in providing possibilities for employment, innovation, money, variety, self-fulfillment, independence etc" (p.362).
Liedholm & Mead (as cited in Wengel, & Rodriguez, 2006)	"The great majority of micro enterprises are indeed non-growing enterprises that remain fully reliant on unpaid family labor. Hence, many micro-enterprises are established during economic crises as the result of the lack of better employment opportunities elsewhere so that many of the micro-enterprises started during crises are likely to close down during the economic recovery". (p.27)
Sharif, Kalafatis, & Samouel (2005)	"...Given the lack of widely accepted definition of SMEs we employed the criteria of less than 250 employees used by the DTI, the European Commission and specified in the UK Companies Act 1985....." (p.410)

Several common variables or concepts are found across these definitions. According to the conceptual aspects of these definitions, SMEs are characterized by newness, flexibility, and agility. According to the numerical aspects of the definitions, SMEs are most commonly identified as a company with fewer than 200 or 250 employees.

Market Orientation

Market orientation implies “a culture in which organizations strives to create superior value for their customer (and superior performance for the business) by focusing on customer needs and long-term profitability” (Becherer, Halstead, & Haynes, 2003, p. 13). In the competitive market, to achieve superior performance, a business must develop and sustain a competitive advantage. A market oriented culture is helpful when a company creates processes for transferring values to its customers (Becherer, Halstead, & Haynes). According to Slater and Narver (1999), a firm’s superior performance is strongly and positively related to a market orientated business culture. In addition, benefits to the firms using a market orientation in a competitive environment are much greater than to those firms not operating with intensive competition (Kohli & Jaworski, 1990).

Pelham (2000), in a study of 160 firms in the commodity and specialty industry, provides significant empirical evidence that market orientation and manufacturing firms’ performance in SMEs are even more correlated than in larger firms. This result supports the concept that market orientation is a more important competitive resource to SMEs than it is to larger firms.

Additional empirical research studies done in a variety of industries (i.e., consumer product, business products, business service, and consumer service, manufacturing, construction, materials, textile, food, chemical, service, transportation, electronics, software, and utility)

support the concept that a market orientation enhances organizational learning and innovation capability rather than directly influencing a firm's performance (e.g., Hurley & Hult, 1998; Keskin, 2006; Hyvonen & Tuominen, 2006).

With a sample of 9,648 employees from 56 organizations in a large agency of the U.S. federal government, Hurley and Hult (1998) found that market orientation and learning orientation are antecedents to innovation and that learning orientation mediates the relationship between market orientation and firm innovativeness. In a study of 157 SMEs in manufacturing, construction, materials, textile, food, chemical, service, transportation, electronics, software, and utility industries, Keskin (2006) tested, in Turkey, the conceptual framework developed by Hurley and Hult. The sample was limited to firms with fewer than 250 employees. The framework of Hurley and Hult was adopted to test the relationship among market orientation, learning orientation, innovation, and performance. Keskin found that learning orientation is important to SMEs' innovation and that market orientation is an influence on SMEs' innovation and performance only when it is combined with learning orientation.

Hyvonen and Tuominen (2006) conducted a study that used a sample of 700 SMEs, which have fewer than 100 employees in the consumer product, business products, business service, and consumer service industries, in Finland, which resulted in 159 surveys with usable data (a 23% response rate). Prior to the study, they developed a conceptual framework indicating that a performance advantage is directly affected by innovation, market-driven intangibles (i.e., market orientation), and learning orientation. The exact relationship among the variables was that innovation's effect on performance was moderated by the market and learning orientations of the firm. Based on this model, they found that the market orientation of a firm was important to a SME's performance. Innovation and learning orientation, found to be related with a marketing

orientation in previous research, were not found to be directly related. Only learning orientation was related directly to SMEs' performance in this study. This study adopted variables to measure learning orientation from Calantonea, Cavusgil, and Zhaob's (2002) study of 187 firms from the industries of chemicals, machinery, electronic, instruments, computer and data processing, engineering, and management service.

No clear evidence in the literature shows that large businesses are more market oriented than SMEs. Even though market orientation was established in the context of larger businesses, market orientation is applicable to SMEs' context (Blankson, Motwani, & Levenburg, 2006). Reinforcing this point, Pelham (2000) provided significant empirical evidence that highly market oriented SMEs are more successful than larger businesses, which are not so market oriented. Furthermore, Saara and Tuominen (2006) suggest that market orientation and SMEs' performance are interrelated.

As a result of limited resources and capabilities, however, SMEs rarely hire marketing specialists. Instead, SMEs market intelligence is highly dependent on secondary data such as journals, sector research, conferences, and professional magazines or on personal resources such as suppliers, customers, or bank employees (Smeltzer, Fenn, & Nikolaisen, 1988). Customers and suppliers are used most often as information sources, and competitors and consultants are the least frequently used information sources (Fenn & Smeltzer, 1989). Successful SMEs focus on developing relationships with customers who are valuable information sources of market needs (Narver & Slater, 1990). "This is not to say that being market-oriented is natural or easy. It simply needs not to be expensive or unavailable to small firms" (Narver & Slater, 1994, p. 1167). Many owner/managers consider that developing and utilizing a market oriented culture and behavior is expensive and difficult (Narver & Slater, 1994). For the market orientation studies,

the features of the study, including study type, sample size, industry, and the inclusion of the variables of learning orientation, innovation, and performance, are summarized in Table 3 for studies specifically focused on SMEs and in Table 4 for studies with various sized firms.

Table 3.

SMEs studies relating market orientation, learning orientation, innovation, and performance

	Market orientation	Learning orientation	Innovation	Performance	Study Type	Sample Size	Industry
Becherer, Halstead & Haynes (2003)	*			*	Empirical Study	215 SMEs CEOs	Diverse industries in the United State
Choueke & Armstrong (1998)		*	*	*	Field Study	24 SMEs	Diverse industries in England
Hornig & Chen (1998)	*			*	Empirical Study	76 SMEs	Diverse Industries in Taiwan
Hayvnen & Tuominen (2006)	*	*	*	*	Empirical Study	159 SMEs	Diverse Industries in Finland
Keskin (2006)	*	*	*	*	Empirical Study	157 SMEs	Diverse Industries in Turkey
Pelham (2000)	*			*	Empirical Study	235 SMEs	Commodity and Specialty industries
Sadler-Smith, Spicer & Chaston (2001)		*	*	*	Empirical Study	300 SMEs	Manufacturing and Service SMEs in England
Verhees & Meulenberg (2004)	*		*	*	Empirical Study	152 SMEs	Rose Growers In Germany
Tzokas, Carter & Kylaoppolosp (2001)	*			*	Empirical Study	246 SMEs	Manufacturing SMEs in Greece

Table 4.

Studies relating market orientation, learning orientation, innovation, and performance

	Market orientation	Learning orientation	Innovation	Performance	Study Type	Sample Size	Industry
Aldas-Manazano Kuster, & Vila (2005)	*			*	Quantitative and Qualitative Study	465 firms for Quantitative Study 17 firms for Depth Interview	Spain Textile Firms
Calantonea, Cavusgila, & Zhaob (2002)		*	*	*	Empirical Study	187 R&D Vice Presidents	Manufacturing and Service Industries in the United State
Deshpande & Webster (1993)	*			*	Field Study	50 firms	Firms publicly traded on the Nikkei stock exchange in Tokyo
Fiol & Lyles (1985)		*		*	Content Analysis		
Hurley & Hult (1998)	*	*	*	*	Empirical Study	9648 Employees from 56 Organizations	Large Agency of the United State Federal Government
Han, Kim & Serivastava (1998)	*		*		Empirical Study	134 banks	Banks in United State
Kohli & Jaworski (1990)	*			*	Field Study	62 individual for in-depth interview	Diverse Industry In United State
Mavondo, Chimhanzi & Stewart (2005)		*		*	Empirical Study	220 Businesses	Australian High-Tech, Professional, and Hospitality Industries
Slater & Narver (1994)	*			*	Conceptual Study		
Sinkula (1994)	*			*	Conceptual Study		
Sinkula, Baker, & Noordewier (1997)	*	*		*	Conceptual Study		
Slater & Narver (1995)	*	*		*	Conceptual Study		
Tzokas. Carter & Kylaoppolosp (2001)	*			*	Empirical Study	246 SMEs	Manufacturing SMEs in Greece

In an attempt to define the components of marketing orientation, many authors found that a marketing orientation entails the following facts: (a) multiple departments in an organization aim to anticipate and understand customer's current and future need and environmental influences, (b) this informational understanding of customers and environments is shared across departments, and (c) the departments act upon this collective information to meet selected customer needs. As a result of their study, Kohli and Jaworski (1990) identified three market orientation steps: market intelligence generation, dissemination, and responsiveness. In addition, Kohli and Jaworski suggested that customer focus, coordinated marketing, and profitability are the three outcomes of market orientation. In the same time period, in a study of 140 sized firms in commodity and noncommodity products businesses, Slater and Narver (1990) identified customer orientation, competitor orientation, and interfunctional coordination as the three market orientation components. In a third study, Hurley and Hult (1998) examined 134 small-sized banks and also recognized the importance of customer orientation, competitor orientation, and interfunctional coordination as components of market orientation. Subsequent to the study of Slater and Narver, in a study of SMEs, Saara and Tuominen (2006) operationalized market orientation variables as customer focus, supply chain, and network as market oriented intangible assets and proved their positive impact on performance. Market orientation is clearly viewed in academic research as a multifaceted variable. In summary, the following components of market orientation were first identified by Narver and Slater (1990) and then supported by other studies: customer orientation, competitor orientation, and networks.

Customer Orientation

Customer orientation is the most fundamental aspect of the market oriented corporate culture (Narver & Slater, 1990), and can be a common value or goal integrating diverse perspectives

within an organization (Pittaway, Robertson, Munir, Denyer, & Neely, 2004). In the past, the customer was defined as the person who made a purchase; however, the definition of a customer has expanded in meaning (Kohli & Jaworski, 1990). In the 1920s and 1930s, the definition of a customer included middle men or retailers who were purchasing goods and making payments to manufacturers (Appiah-Adu & Singh, 1998; Mckitterick, 1957). In the 1960s, the definition of customers, and thereby researchers' interests, changed from a focus on the customer within the supply chain to the end-product consumers, or the customers of the retailers. From this perspective, customers can be placed into the following two categories: (a) end users of products and services and (b) middlemen, retailers or other organizations that may dictate or influence the choices of end users. For this reason customer orientation means that manufacturers seek to understand the needs and preferences of both the product end-use customers (i.e., consumers) and the retailers through whom their products are sold.

For the textile and apparel industry, this broad customer orientation is being labeled as consumer-centric, and is a term that is in frequent use by apparel firms (Berger, Möslein, Piller, & Reichwald, 2005). A consumer-centric company is one that focuses its all activities on the processes to identify and understand customers in a given market. A customer-centric company is more likely to be successful in a competitive and shifting market (Kincade, 2008). This focus on the consumer is viable only when the entire supply chain is so focused. In accordance with this trend to examine all customers in a supply chain, researchers' emphases have changed from studying how to impress only the retailers to creating abilities that enable a business to provide consistently superior value to both its immediate customers and its product end-use customers. Establishing this type of operation is known as having a competitive advantage. Thus, researchers' interests and firms' activities for customer orientation have shifted to the broader

market picture including both end users and distributors, and their needs and preferences (Kohli & Jaworski, 1990). Studies so far in the textile and apparel industry about the importance of being consumer-centric are limited.

A significant challenge facing SMEs is how to sustain growth in a competitive and dynamic environment and thereby improve performance. This finding is a result of an empirical study by Appiah-Adu and Singh (1998) with a sample of 108 SMEs in industrial/consumer goods businesses and manufacturing/service firms. In the market of the 2000s, acceleration in changes for the development of technology has resulted in the shortening of product life cycles, which affects the rate at which firms must collect, analyze and react to market information. This increases the difficulty for many organizations to excel in their performance. Technology changes are also creating more organized and intelligent customers, which are becoming more demanding (Appiah-Adu & Singh).

Although achieving customer orientation may be difficult because most SMEs lack extensive strategic and systematic decision making abilities, customer orientation is perceived as one of the significant components determining SMEs' performance. The linkage to performance is explained by several principles (Pelham, 2000). Customer orientation can provide prompt solutions and short-term decision making strategies. Such an orientation requires an organization-wide focus on the consumer, and the establishment of objectives, decision guidelines and action directions. In addition, if followed, this orientation helps managers in an SME to understand and satisfy the customer's needs and preferences, which can result in sales of products or services and ultimately in profits (Appiah-Adu & Singh, 1998).

Being customer oriented means taking actions based on market intelligence, or information collected on the environment, including external market conditions such as

competition and regulations that impact customer needs and preferences both currently and in the foreseeable future (Kohli & Jaworski, 1990). For example, in DuPont, a major fiber and other chemical product corporation, blue color workers participated in the “Adopt a Customer” program. The program encouraged understanding of customers by having the adoptor-worker visit customers (i.e., adoptee) once a month, learning their needs, and becoming the customer’s representative on the factory floor. As determined in a study of 81 strategic business units in a forest products company and 36 strategic business units in a diversified manufacturing corporation, customer orientation is the most important tactic in the market orientation strategy, and market orientated firms continually monitor customer satisfaction to create customer loyalty and repeat sales (Slater & Narver, 1994).

Competitor Orientation

Competitor orientation is analyzing and understanding competitors’ long term and short term strategy and technologies to satisfy current and future customers (Narver & Slater, 1990). Their supposition was that customer orientation, by itself, was insufficient to create customers’ satisfaction. Too much concentration on customer orientation inhibits building an appropriate business strategy because a firm cannot be reactive to its market. But this limitation can be overcome by adding competitor orientation. Thereby competitor orientation can contribute to market orientation (Han, Kim, & Srivastava, 1998). When a firm pays attention to competitors, the following questions arise: “(a) which competitors, (b) what technologies, and (c) whether target customers perceive them as alternative satisfiers” (Han, Kim, & Srivastava, p.23). Based on answers to those questions a firm can build a competitive strategy then it can share information about the competitor within the organization. When reactive or innovative, a firm

can be competitive with proper and rapid response in accordance with competitors' strengths and weaknesses (Slater & Narver, 1994).

Miles and Snow (1978) categorized competitor orientation by the following four types: (a) defenders; (b) prospectors; (c) analyzers; and (d) reactors. This definition is primarily based on how a firm interacts with its environment. Defenders focus on current target markets and product and do not search for an outside or new opportunity. They use price as a tool against the competition. Prospectors search for new products in new markets continuously and are constantly innovating to be ahead of the competition. Analyzers show mixed characteristics of both defenders and prospectors. They pursue being stable rather than being innovative and introduce new products in the new or existing market only after market analysis is completed. They are very cautious but active in their orientation to the competition. Finally, reactors respond to the market environment, and thereby the competition, whenever the market changes; therefore, they are not consistent in their strategies toward the competition.

Snow and Hrebiniak (1980) tested the relationship among strategy, distinctive competence, and organizational performance. The sample in their empirical study consisted of 247 firms in 13 industries. They found that defenders, prospectors, and analyzers outperform reactors in the competitive industries rather than in a stable industry. In addition, the competitor orientation of reactors does not exhibit a positive influence on performance consistently.

McDaniel and Kolari (1987) in their empirical study with a sample of 310 banks note that strategy types and environment are related. If an organization is operated in a favorable environment where one or more of the three strategy types (i.e. defenders, prospectors, and analyzers) is/are appropriate, their strategy type can be successful. Furthermore, if more than one strategy type is operated in the given environment, those are more successful.

In the apparel industry, Ko and Kincade (2000) and Ko, Kincade, and Brown (2000) in their empirical studies with 306 U. S. apparel firms examined the influence of strategy type on implementation of QR technologies. They found that strategy type was important to successful QR usage. Among the strategy types, prospectors are most likely to use QR as a competitive strategy.

Network

A network for business activities is about managers and other employees in firms joining together with a common objective, working together, and cooperating through the exchange and sharing of ideas, knowledge and technology. Such networking can occur through trade events and personal contacts, in liaison with marketing intermediaries and as part of the SME owner managers' social endeavors (Aodheen, 2004; Aris, 1995; Hill, 2001; Pyka, 2002). Networks can be formal such as partnerships within a supply chain and can be informal such as contacts made through family members, geographic closeness, or social or organizational meetings.

SMEs experience difficulties such as lack of capital, need for retraining employees when skills and processes no longer match, and absence of advanced tools or technologies to support their new ventures. For these reasons, SMEs, more often than not, have been unable to provide a complete answer to the challenge of markets and are in the best position to cooperate with each other (Bonfatti & Monari, 1995; Ceglie & Dini 1999). The purpose of networks for SMEs is to obtain the advantage of being big through interfirm cooperation even though they are small (Terziovski, 2003). In addition, SMEs use networks for the following benefits: (a) to find common solutions for common problems; (b) to achieve economies of scale through bulk purchasing and other operational activities; (c) to access and make use of technologies/ resources, and markets that would be beyond a single company's ability (McGovern, 2006); and (d) to

maximize expertise by focusing each SMEs' interest on its distinctive competencies by gathering outsider's knowledge and skills when needed (Terziovski, 2003). SMEs can achieve economies of scale by cooperating with others vertically and/or horizontally. Networks can be formed not only by horizontally cooperating with other SMEs but also by vertically participating in the supply chain of a large company as a contractor (Ceglie & Dini 1999).

The characteristics of a SME network are striking in their similarity to other SME marketing characteristics. For example, a SME network tends to be less formal, unpredictable, and reactive in characteristics (Birley, 1985). Network activities can emerge and be beneficial in any industry that has a high number of SMEs from high-technology industries, such as semiconductor and computer firms, to mature industries such as the textile and apparel industry. Within the textile and apparel industry, SMEs often locate in industrial districts, which allow them to form networks of small, loosely organized firms within these geographic clusters (Kim & Kincade, 2007; Son, Kim, & Ji, 2007).

Supply Chain. Supply chains form a network where all firms are linked with both their suppliers and their customers. These networks are vertical in nature and may be either formal or informal; however, the trend among many firms is to make their supply chains a formal network through partnership agreements that provide stability in product flow. SMEs' owners/managers can find assistance from suppliers who collaborate in the development of new solutions or products and who provide technical support including technological knowledge and information about new products, user training, and information about competitors. In addition, suppliers and SME customers are able to exchange mutually beneficial knowledge, share costs and risks and benefit from the potential for innovative solutions (Calabrese, 2000; Clark & Fujimoto, 1991; Panizzolo, 1998). In the apparel sector, this sharing of information and knowledge is often

accomplished through the marketing strategy of QR (Kincade, 1995). With suppliers that are supportive and integrated into the SMEs' operations, the SMEs can concentrate on their core competencies and can achieve great financial and managerial benefits as they reduce operating costs, have better cost control, and are able to adopt outside experts to fill a firm's deficiency (Hill, 2000; Ko, Kincade, & Brown, 2000).

In the textile and apparel industry, Lee and Kincade (2003) defined supply chain as an effective means to utilize suppliers, manufacturers, logistics and customers. Therefore, it enhances the long-term performance of the firms that use this formalized networking strategy. In this definition, close relationships among members in the supply chain are important. To be successful, supply chain management needs to integrate those elements such as suppliers, manufacturers, logistics and customers to create favorable environment (i.e. cooperative and collaborative environments). This process facilitates information exchange and material and cash flow from sources to customers (Hong & Jeong, 2006; Kukalis, 1989).

Supply chain benefits related to increased innovation are reductions in cost, production time, and product quality problems and increases in speed. When the needs and capabilities of suppliers and customers are integrated into the innovation process, the outcomes lead to higher levels of productivity and quality and an overall improvement in product design outcomes. In addition, integration of operations enables firms to have wider access to expertise and knowledge, to establish closer relationships among suppliers, and to facilitate communication between partners (Pittaway, Robertson, Munir, Denyer, & Neely, 2004). Ko, Kincade, and Brown (2000) identify the supply chain benefits as the following: "decreased lead times, increased market share, reduced inventory levels, enhanced customer loyalty, increased profits, reduced markdowns,

improved flexibility to meet changing market demand, increased ROA, reduced work-in-process, improved productivity, and lower costs” (p.1095).

Informal Relationship in Newly Industrialized Countries (NICs). An informal relationship is a very special relationship, or type of network, that two persons share with each other (Jin & Moon, 2006). When this type of network is found in NICs, it can be best translated as friendship with overtones of abundant exchanges of favors. Two persons involved in this personal network assume that each is fully committed to the other. They have agreed to exchange favors in spite of official requirements to act neutrally. Each partner is obligated to help the other, generally, in an unlimited manner (Jin & Moon). Kohli & Jaworski (1990) denotes that informal relationships, or these networks, facilitate both information flow and cooperation of members by moderating conflicts across department in an organization, and consequently strengthening market orientation and performance.

While informal relationships in both Western countries and NICs are similar in some meanings, such as these networks in both types of countries emphasize building and maintaining personal relationships, very clear differences also exist between the informal network in each of them (Song & Ko, 2006). An emotional commitment to the relationship is not considered as an essence of business in the Western informal relationship. In fact, common business practices in Western firms set the emotional exchange apart from the business relationship (Carroll & Hwang, 1992). In firms in the NICs, emotional commitment is important in an informal relationship. In informal relationships in NICs, members exchange both materials or products and emotional favors from each other, which put members under an obligation to help each other whenever they want assistance (Song & Ko, 2006). The main formation of informal relationships in Western firms is building an informal relationship after the business relationships are established.

Informal relationships in firms in NICs emphasize developing the relationship before and during the more formal business relationships, which are then settled based on mutual trust (Carroll & Hwang, 1992; Kohli & Jaworski, 1990; Slater & Narver, 1995). To maintain informal relationships with partners in Asian NICs (e.g., South Korea), participation in the informal settings of dinner or entertainment are crucial. Attending such events develops friendships and relationships that foster the trust necessary to contribute to the overall success of firms in NICs (Carroll & Hwang, 1992).

The informal relationship, called Guanxi in Chinese and In-Mac in Korean, are very important when considering factors in the NICs' business culture (e.g., China, South Korea) (Carroll & Hwang, 1992; Song & Ko; 2006). These relationships are important when people consider doing business in NICs because people in NICs are more likely do business with those with whom they are familiar. The more a person has the connections in NICs, the more the business can run efficiently. Developing and fostering good relations with people within this informal network is important based on mutual trust and benefit. In business relationships among NICs' firms, detailed contracts are not important as they are in business in Western firms. In NICs' firms, managers prefer to be flexible as business circumstances change (Carroll & Hwang, 1992). This mode of business operation is perceived as being appropriate for firms in the apparel sector as flexibility is needed to deal with seasonal and fashion changes.

Informal Relationships in the South Korean Textile & Apparel Industry. As a member of NICs (Jin, 2004), South Korea and its firms also have informal relationships in business based on sharing of emotion. The informal relationship as a business practice in South Korea traces its origin back to the tradition of Confucianism. The following interview, cited by Jin and Moon

(2006) with a South Korean apparel company director, gives evidence that the informal relationships of a firm is the most critical determinant factor for its performance:

He received repeat orders for long sleeve knit shirt from several major retailers. Knowing that long sleeve shirt should be sold within one month otherwise the stocks would be useless; he had to push one manager. The manager then contacted a former boss and begged for special yarn production for the knit, and then desperately searched for knit production facility, again using his personal network. He managed to produce the orders within two weeks, from yarn to retail stores, which normally takes at least two months
Kim, personal communication, April 3, 2001. (p. 204)

Learning Orientation and Innovation

Learning orientation and innovation are two business components that are often related to performance enhancement within the marketing and management literature. Although these components do have essences that overlap they are also cited as two distinct and definable components. Information about studies including the learning orientation and innovation variables are summarized in Table 3 and 4 divided by SME and mixed size firms, respectively.

Learning Orientation

Hawkins (1994) notes that having a learning orientation provides competitive advantages to firms in turbulent and highly competitive market conditions. In competitive markets, a firm's ability to learn is a key to its success in competing in the business environment (e.g., performance) (Slater & Narver, 1995; Smith, Spicer, & Chaston, 2001). In addition, organizational learning strengthens a firm's creativity, increases its ability to identify innovation opportunities, and provides for long run competitive success, one aspect of performance. It also

helps a firm's ability to access market information and enables it to use that information within the company at a faster rate than competitors (Dickson, 1996). Calantonea, Cavusgil, and Zhaob (2002) found a significant role for learning orientation to a firm's performance without modification from other variables. Some researchers propose that organizational learning is the most important antecedent and/or mediator of innovation and successful performance (Hurley & Hult, 1998; Keskin, 2006; Lumpkin & Dess, 1996; Sinkula, Baker, & Noordeweier, 1997).

Organizational learning implies the acquisition of new knowledge or insight-development processes that can influence a firm's behavior. Learning, therefore, becomes an effective tool to improve a firm's performance (Fiol & Lyles, 1985; Huber, 1991; Sinkula, 1994; Slater & Narver, 1995). Baker and Sinkula (1999), in their exploratory study with 411 firms in various industries, define that "learning orientation directly affects to challenge old assumptions about market and how a firm should be organized to address it" (p.412). In addition, Smith, Spicer, and Chaston (2001) in an empirical study with 300 small manufacturing and service firms state that organizational learning in management is defined as "the development or acquisition of new knowledge or skills in response to internal or external stimuli that lead to a more less permanent change in collective behavior, enhancing organizational effectiveness" (p.140). Additional studies are described in Table 3 and 4.

Organizational learning can be classified into two types of learning: adoptive learning and generative learning. Adoptive learning is a sequential and incremental learning, which is constrained by the traditional scope of the firm's activities. Generative learning is the development of new of insights within the firm. It emphasizes an understanding of the systems and relationships related to the important issues and events in the firm and in the market. This type of learning is more advantageous to the firm than adaptive learning, especially considering

the variables of market orientations and innovation, which require change by the firm (Slater & Narver, 1995). Sinkula (1994) first suggested the learning orientation concept as part of an academic study. Subsequently, Sinkula, Baker, and Noordewier (1997) found in their empirical study with 125 firms in diverse industries that learning orientation can be measured by the following four factors: (a) commitment to learning, (b) shared vision, (c) open-mindedness, and (d) intraorganizational knowledge sharing. .

Commitment to learning is defined as “the degree to which an organization values and promotes learning” (Calantonea, Cavusgila, & Zhaob, 2002, p. 516) and plays an important role in the promotion of a culture that is supportive of organizational learning culture and in sustaining competitive business environment. Shared vision implies that “organization-wide focus on learning” (Calantonea, Cavusgila, & Zhaob, p.516). This vision facilitates knowledge flow and provides clear direction to all members in an organization and consequently stimulates organizational learning. Open-mindedness, which is evidenced by “the willingness to critically evaluate the organization’s operational routine and to accept new ideas” (Calantonea, Cavusgila, & Zhaob, p.517), enables a firm to response quickly according to changing market conditions. Finally, interorganizational knowledge sharing promotes integration of beliefs and behavioral routines within the firm and provides gathered information for future action.

Innovation

In SMEs, innovation is discussed extensively in the literature as one of the key drivers of performance and other measures of a firm’s success (Thacker & Handscombe, 2003). Innovation is also very pertinent to the textile and apparel industry and emphasizes the importance of QR and other strategies as competitive advantages to survive in the competitive environment (Kincade, 2002; Ko, Kincade, & Brown, 2000). The definition of QR is consistence with the

definition of innovation. QR is a set of technologies that facilitates information, materials, and products flow from manufacturers to retailers. QR refers to newness in management and technology procedures (Damanpour, 1991; Ko, Kincade, & Brown; Voluntary Interindustry Communications Standards, 1989).

Many definitions of innovation are available from various sources. For example, Johannessen, Olsen, and Lumpkin (2001), from a study of 684 firms in diverse industries, define innovation as “novelty and newness of production, economy, and social sphere. Specifically, innovation includes innovative policy, structure, method, process, or/and any product or market opportunity” (p. 21). The Department of Trade Institute (DTI) within the United Kingdom (UK) (2003) provides the broad definition that innovation is “the successful exploitation of ideas into new products, processes, services or business practices, and is a critical process for achieving the two complementary business goals of performance and growth, which in turn help to close the productivity gap” (p. 1). From these definitions, innovation can be described as newness in a firm’s technology and management.

One of the important issues SMEs face related to innovation is how to link their innovation successfully with improved or successful performance. Many researchers (e.g. Damanpour, 1991; Han, Kim, & Serivastava, 1998; Johannessen, Olsen, & Lumpkin, 2001; Ko, Kincade, & Brown, 2000) agree that innovation is a creative and risk taking process that encourages developing new goods or services, implementing new methods of production, establishing new markets, utilizing new supply sources, and creating new organizational forms. These product development and manufacturing activities contribute toward strengthening the value and performance of products, processes, or procedures (Bhaskaran, 2006).

Han, Kim, and Serivastava (1998) contend that innovation encompasses the following two procedures: innovativeness and innovation capability. Innovativeness refers to the degree and/or extent of a firm's openness when it accepts new ideas, which ultimately impacts its innovation capability. Innovativeness is often identified by a change in behavior (i.e. change in organizational culture). In addition, it leads to innovation. Innovation capability is identified by a firm's successful implementation of new ideas, processes, or products. Innovation capability can be defined by implementation of both technological and managerial innovations (Han, Kim, & Serivastava, 1998). Technological innovation implies developing new products and technological systems to response directly to customers' needs and preference" (Damanpour, 1991, p. 560). The Damanpour's definition is based on a meta-analytic review of previous literature in management journals. A firm's attitude toward the adoption of innovation is reflected by managerial innovation. Managerial innovation is defined by organization-wide change of culture by adopting new strategy, system, or service (Damanpour, 1991). Technological and managerial innovations are associated with different decision making processes. Technological innovation includes either product or process activities; therefore, the firm using this type of innovation implements changes so that it is more able to response directly to the markets (Daft, 1978). Managerial innovation concerns changes in indirect process such as organizational structure or administrative processes that promote flexibility and change allowing for quick reactions to the customer and the environment (Damanpour, 1991).

Definitional Overlap between Learning Orientation and Innovation

In the studies of market orientation, innovation is often ignored because of similarity in meaning with learning orientation (Hurley & Hult, 1995). Through their work, Hurley and Hult identified the potential for an overlap in meaning between learning orientation and innovation.

The overlap they found was similar to the following definition by Thompson (1965): “Innovation is the generation, acceptance and implementation of new ideas, processes, products or services” (p.36). Changes in a firm through implementation of innovations could be defined as an aspect of organizational learning. Further evidence of overlap was by found by Zaltman, Duncan, and Holbeck (1973). In their book, they defined innovation as “an idea practice or material artifact perceived as new by the relevant unit of adoption” (p.2). In both of these definitions, the adjective *new*, and the organizational changes it implies, is key to the definition of innovation and also germane to the concept of learning.

More exploration of the definitions and conceptual aspects of the two variables augments the point that innovation and learning orientation are similar and overlap. Innovation includes both incremental and radical innovation (Lin & Chen, 2007). What differentiates an incremental innovation from a radical innovation is the level of learning. An incremental innovation uses existing knowledge and resources within a company; whereas, a radical innovation requires completely new knowledge and/or resources and therefore learning (Hamdouch & Samuelides, 2001; James, 2002; Lin & Chen, 2007; West & Farr, 1990). The degree of change in an innovation is dependent upon the infusion of new information relative to the learning capabilities of the company (Damanpour, 1991).

Although learning orientation and innovation overlap at some points, they are different in their roles related to market orientation. Learning orientation is thought to provide a mediating influence to market orientation. A market orientation alone does not directly increase a firm’s performance but is most effective when it is combined with a learning orientation (Hurley & Hult, 1998; Narver & Slater, 1995). In contrast, innovation is considered to be a consequence of market orientation (Jaworski & Kohli, 1996) because market orientation presents new or

different facets to customers in response to market conditions (Kohli & Jaworski, 1993). In other words, innovation and new product successes are the outcomes of a market driven business culture (Slater & Narver, 1994).

Performance

Defining performance is difficult because performance, as other marketing and management variables, is not a simple phenomenon but a mixture of multiple factors. Performance has different meaning according to different viewers; therefore, it has been measured by diverse factors (Snow & Hrebiniak, 1980). Ruekert and Walkers (1987) in their exploratory study with 95 marketing and sales personnel provided a comprehensive framework to access performance. Their suggested framework consisted of measures for the performance components of effectiveness, efficiency, and adaptability. Effectiveness can be measured by relative business success compared with competitors in the given market. This measure includes the objective measures of sales growth and market share. Efficiency refers to the results of resource expenditure (i.e. outcomes of business strategy). It is measured objectively by the use of financial ratios such as return on investment (ROI). Adaptability denotes commitment to changes corresponding to changes in the environment. Introducing new product or service in the market is the type of adaptability. This component was measured by subjective methods.

In the studies relating market orientation to performance, Narver and Slater (1990) used return on assets (ROA) (i.e., efficiency) as a variable to measure performance, and they found a positive relationship between market orientation and performance. Jaworski and Kohli (1993) measured performance using both subjective measures pertaining to the general performance of the business and more objective measures for overall performance relative to major competitors.

Calantonea, Cavusgila, and Zhaob (2002) used three objective measures including the financial ratios of ROI, return on asset (ROA), and return on sales (ROS) and subjective measures (i.e. overall profitability), and those variables were reexamined by Calantonea, Cavusgila and Zhaob (2002) in SMEs studies.

In SMEs studies, Hyvonen and Tuominen (2006) use net profit, profit margin, ROI, sales volume, market share, customer satisfaction, and customer loyalty to measure business performance. Pelham (2000) measures performance by marketing and sales effectiveness with the metrics of growth/share and profitability. As objective measures, growth and share consist of the following numbers: sales growth rate and share of target market, and profitability was measured with the following metrics: return on equity (ROE), gross profit margin (GPM), and ROI. Hayes and Jones (2006) in a statistical analysis study in the apparel sector adapted three variables to measure performance, which were gross margin, operating margin, and net margin. Jin (2006), in an empirical study with 127 firms in the apparel sector, operationalized performance variables as strategic, financial, and operational performance. Strategic performance had market share and sales growth as the metrics, financial performance included ROI and ROS, and operational performance was measured by overall lead time.

For performance, information about studies including this variable and market orientation, learning orientation, and innovation are summarized in Table 3 and 4. The most common measures of performance across multiple studies are the ratio metrics, especially the ROI. Although some of the measures in these studies appeared to be objective (e.g., ROI), many variables were measured by perception of respondents relative to competitors and therefore were actually subjective metrics. This masked objectivity is common in the measures of performance among marketing and management studies.