Bonding of Market-Based Innovativeness with Corporate Reputation Is Emotional or Rational? Evidence From the Pharmaceutical Industry of Pakistan

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Abstract

The study is conducted to find the impact of Product Innovativeness (PI) and Market Innovativeness (MI) on the Emotional Appeal of Corporate Reputation (EA-CR) as well as Corporate Reputation about Products and Services (CR-PS) in the pharmaceutical industry of Pakistan. Primary data was gathered from the sales force of the 15 companies selected via stratified random sampling. Existing measurement scales of the constructs were utilized after adaptation due to their consistency and robustness in different contexts. Moreover, PLS-SEM is used for data analysis. The findings showed that PI significantly affects CR-PS and EA-CR. On the other hand, market innovativeness does not significantly influence CR-PS, however, its impact on EA-CR is also significant. Results suggested that pharmaceutical companies of Pakistan should work over market-based innovativeness for their goods and services to be viewed as superior and innovative, besides, such companies are also admired, liked and esteemed by various publics. The role of innovativeness in shaping sophisticated and legitimate corporate reputation has been recognized by researchers. Nevertheless, both constructs are multidimensional and to the best of the authors' knowledge, this is the first study discussing the bonding of market-based innovativeness with EA-CR and CR-PS in the context of pharmaceutical sector.

Keywords: *Product Innovativeness, Market Innovativeness, Emotional Appeal of Corporate Reputation, Corporate Reputation about Products and Services.*

Introduction

Background of the Study

Today is a time of ever-increasing competition. Customers have a variety of options in each product category which makes it easier for them to switch from one brand to another. However, it is a challenge for marketers to remain competitive in this situation. Therefore, they desperately need a competitive advantage to survive successfully. This scenario demands organizations to be innovative in terms of producing new products, processes, novel marketing strategies, and organizational approaches as it is a way to gain competitive advantage. Creating and strengthening Innovative Capability (IC) is crucial for organizations to become innovative. IC is described as a firm's ability to use collective knowledge, skills, and resources for innovative activities related to new goods, processes, services, management, marketing, or work organization methods to create added value for the firm or its stakeholders (Calik et al., 2017). According to (Wang & Ahmed, 2004), organizational innovativeness is "an organization's overall IC of introducing new products to the market, or opening up new markets, through combining strategic orientation with innovative behavior and process".

Besides other industries, the pharmaceutical industry also places a high value on innovativeness (Romasanta et al., 2020). The innovativeness pays off to firms in the industry as shown by the results of (Andjarwati, 2020). The researcher inspected the relationship of IC with firm performance in the Indonesian pharmaceutical industry. The pharmaceutical industry of Pakistan cannot be ignored in the discussion of ever-rising competition. There are roughly 759 firms in the pharmaceutical industry of Pakistan, including approximately 27 multinational companies. The companies are concentrated in main cities like Lahore, Karachi, and Peshawar. Local firms dominate the industry, accounting for over 70% of the market. Besides, sales growth of the local companies has also been higher. In Pakistan, around 9,000 prescription medicines are being marketed. Furthermore, there are several OTC (Over the Counter) medicines, including Panadol and Disprin. The Drug Regulatory Authority of Pakistan (DRAP) and the Ministry of National Health Services Regulations and Coordination (NHSR&C) both monitor and control the industry; as a result, it is one of the most highly monitored sectors in the country (Usman, 2018).

The importance of innovativeness has been recognized by the researchers, and according to studies it is closely related to Corporate Reputation (CR) (Cravens et al., 2003; Usman & Vanhaverbeke, 2017; Valdez-Juárez et al., 2018; Varadarajan, 2017). (Fombrun et al., 2000)

define CR as a collective construct that defines the overall view of various stakeholders regarding a corporation's performance. As studies have shown that good CR influences financial performance positively (Alvarado-Vargas, 2013; Anderson & Smith, 2006; Eberl & Schwaiger, 2005; Lee & Jungbae Roh, 2012; Raithel & Schwaiger, 2015), sophisticated and legitimate CR is essential for the pharmaceutical companies which facilitates their sales force to smoothly achieve their targets. CR has the capability to create value and is challenging to replicate. Furthermore, in markets where product differentiation is difficult, CR is a significant competitive advantage (Melo & Galan, 2011).

The study (Hanaysha, 2021) revealed that product, service, process, and market innovativeness significantly influence CR. Also, (Chen et al., 2022) investigated the link between green innovation and CR in Chinese-listed enterprises. The results revealed that green innovation positively influences CR. Likewise, according to (Ramos-González et al., 2022), innovation positively influences CR.

Problem Statement

The importance of IC has been recognized by the researchers, and according to studies, it is closely related to CR (Cravens et al., 2003; Usman & Vanhaverbeke, 2017; Valdez-Juárez et al., 2018; Varadarajan, 2017). Both IC and CR are multidimensional constructs, and their various dimensions may have different natures of relationships with one another. Therefore, it is crucial to identify their mutual associations discreetly. The present research examines the impact of Product Innovativeness (PI) and Market Innovativeness (MI) on Emotional Appeal of Corporate Reputation (EA-CR) and Corporate Reputation about Products and Services (CR-PS) in the pharmaceutical sector of Pakistan. As studies have shown that good CR influences financial performance positively (Alvarado-Vargas, 2013; Anderson & Smith, 2006; Eberl & Schwaiger, 2005; Lee & Jungbae Roh, 2012; Raithel & Schwaiger, 2015), sophisticated and legitimate CR is essential for the pharmaceutical companies which facilitates their sales force to smoothly achieve their targets.

Gap Analysis

The role of IC in shaping sophisticated and legitimate CR has been recognized by researchers. For example, the study (Hanaysha, 2021) revealed that product, service, process, and marketing innovation significantly influence CR. Similarly, according to the results of the study conducted by (Aladwan & Alshami, 2021), innovation significantly influences CR. Also, green innovation positively influences CR (Chen et al., 2022).

(Gallardo-Vázquez et al., 2019) state that innovativeness and corporate reputation are vague, complicated, multifaceted notions that are greatly impacted by environment and the mindsets

of individuals who apply them. Therefore, it is necessary that companies' innovative behaviors and results should be investigated through case studies. Also (Geng et al., 2022) suggested in their study that there is a need to have examination of further factors of corporate reputation, which itself is emotional and rational. Considering this, the current research aims to identify the influence of MI and PI (market-based innovativeness) on EA-CR and CR-PS in the pharmaceutical industry of Pakistan.

Objectives of the Study

Objectives of the research include:

1. To identify the impact of PI on EA-CR.
2. To determine the influence of PI on CR-PS.
3. To uncover the effect of MI on EA-CR.
4. To find the impact of MI on CR-PS.

Significance of the Study

The significance of IC in creating CR has been recognized by the researchers (Aladwan & Alshami, 2021; Chen et al., n.d.; Hanaysha, 2021; Ramos-González et al., 2021). However, this research is unique in the sense that it determines the impact of market-based innovativeness on EA-CR and CR-PS in the pharmaceutical sector of Pakistan. The study provides fruitful information to policymakers of the industry regarding how they can accelerate the process of creating legitimate and sophisticated CR, which ultimately impacts their financial performance positively (Alvarado-Vargas, 2013; Anderson & Smith, 2006; Eberl & Schwaiger, 2005; Lee & Jungbae Roh, 2012; Raithel & Schwaiger, 2015).

Review of Literature and Hypotheses Development

Organizational Innovativeness/ Innovative Capability

Growth and development are the important factors that cause change in an economy (Chen et al., 2022). Introduction of innovations in the economy, for instance, new products, novel methods etc. facilitate growth and development. Joseph A. Schumpeter examined these specific factors, who is famous for his contribution to economic theory related to entrepreneurship and innovation (Ziemnowicz, 2013).

IC is defined in the present study as "an organization's overall innovative capability of introducing new products to the market, or opening up new markets, through combining strategic orientation with innovative behavior and process" (Wang & Ahmed, 2004). Innovativeness may have different facets, for instance, process or product innovation, managerial or technological innovation, etc. (Zaltman et al., 1973). The significance of

different aspects is highlighted by researchers (Capon et al., 1992; Miller & Friesen, 1983; Schumpeter, 1934). Of the five Schumpeterian types of innovation PI and MI have received most attention in business research (Branstad & Solem, 2020). Considering this, the present research emphasizes the mentioned two key areas that determine IC.

Product Innovativeness

PI is defined as "the novelty and meaningfulness of new products introduced to the market in a timely fashion" (Wang & Ahmed, 2004). PI (Zirger, 1997) has received a lot of attention (Kotabe & Scott Swan, 1995; Schmidt & Calantone, 1998) as it is a crucial factor in the success of product (Sethi et al., 2001; Zirger, 1997), and is strongly linked to sustainable corporate success (Henard & Szymanski, 2001). Novel products offer excellent chances for business expansion and growth into different markets. Important innovations allow businesses to attain a dominating place in intense competition while also permitting new entrants to get a foothold in the market (Danneels & Kleinschmidtb, 2001).

Market Innovativeness

MI is closely connected to PI and usually considered as product-market innovativeness (Miller, 1983). They are market-based and have an external orientation (Wang & Ahmed, 2004). MI is defined in this study as "the newness of approaches that companies adopt to enter and exploit the targeted market" (Wang & Ahmed, 2004). For certain businesses, this implies that they can enter a market or find a new market niche and introduce innovative technological content. An alternative approach would be to use current offerings but applying innovative marketing plans to sell. In both situations, the company is expected to face new rivals, either in a new market or a current market niche. While PI stresses the innovativeness of new products, MI highlights the novelty of market-oriented methods. Regardless of being viewed as distinct elements, PI and MI are inherently linked.

Corporate Reputation

According to stakeholder theory, managers should consider the values, feelings and hopes of their strategic stakeholders, where a stakeholder is any individual or group that has a “stake” in the company and can influence or be influenced by the accomplishment of a company’s goals (Taghian et al., 2015). CR is a multifaceted concept (Gallardo-Vázquez et al., 2019) that accurately captures the collective opinions of many stakeholders on an organization's performance . According to (Walsh et al., 2006), CR is the sum of all key stakeholders' perceptions of a company's services, people, and communication initiatives as well as the result over time of corporate activity in the stakeholders’ minds. According to (Fombrun et al., 2000a), CR is a collective construct that defines the overall view of various stakeholders

regarding a corporation's performance. Furthermore, they believe that CR can be described by six different aspects that impact various stakeholders, one dimension is EA-CR while the rest fall in the category of rational appeal. In this study, we are focusing on two different dimensions of CR. One is EA-CR (how much the company is admired, liked, and esteemed by various publics) and the other one is CR-PS (views of the innovation, quality, value, and consistency of its goods and services) which is one of the five dimensions of CR rational appeal. Good CR has a noteworthy potential for value creation and is tough to imitate. CR is an important competitive advantage in markets where product differentiation is challenging which shows its importance in the current scenario of ever-increasing competition (Melo & Galan, 2011).

Product Innovativeness and Corporate Reputation

PI (Zirger, 1997) has received a lot of attention (Kotabe & Scott Swan, 1995; Schmidt & Calantone, 1998) as it is a crucial factor in product success (Sethi et al., 2001; Zirger, 1997), which is strongly linked to sustainable corporate success (Henard & Szymanski, 2001). Besides, PI is also associated with CR (Henard & Dacin, 2010; Kunz et al., 2011).

PI has been defined in diverse ways by many authors.

Most frequently, it is devoted to the products' perceived originality, innovativeness, novelty, or distinctiveness (Henard & Szymanski, 2001). According to (Wang & Ahmed, 2004), PI is defined as "the novelty and meaningfulness of new products introduced to the market in a timely fashion".

Besides other industries, the pharmaceutical industry also places a high value on innovativeness, particularly when it comes to bringing new medicines to market (Romasanta et al., 2020). The innovativeness pays off to firms in the industry as shown by the results of (Andjarwati, 2020). (Geng et al., 2022) recommended in their research that there is a need to have inspection of further elements of corporate reputation, which itself is emotional and rational. Considering this, it is hypothesized that:

H1 = PI has a positive significant impact on EA-CR.
H2 = PI has a positive significant impact on CR-PS.

Market Innovativeness and Corporate Reputation

MI is defined in this study as "the newness of approaches that companies adopt to enter and exploit the targeted market" (Wang & Ahmed, 2004). MI is closely related to PI and typically considered as product-market innovativeness (Miller, 1983). Indeed, (Ali et al., 1995) describe innovativeness as the uniqueness or originality of the product to the market and view innovativeness as a market-based construct.

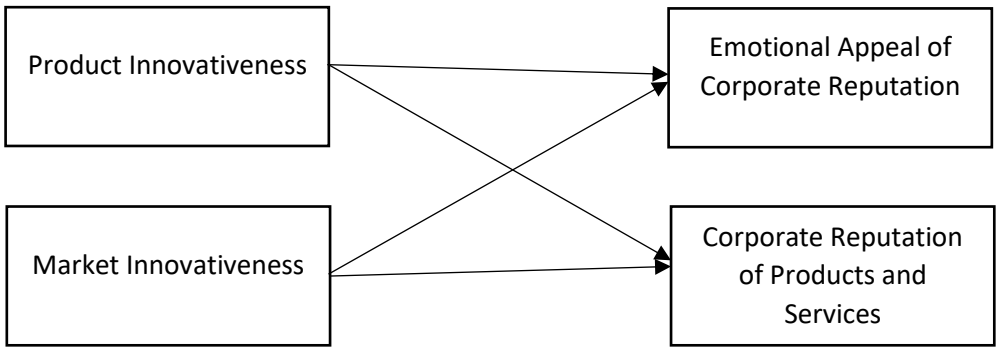
The significance of innovativeness in shaping sophisticated CR has been recognized (Chen et al., 2022; Hanaysha, 2021), for example, the study (Hanaysha, 2021) revealed that besides other aspects of innovativeness, product and market innovativeness significantly influence CR. As, product innovativeness is associated with a corporate reputation (Henard & Dacin, 2010; Kunz et al., 2011) and product and market innovativeness are fundamentally connected. Moreover, (Geng et al., 2022) proposed in their research that there is a need to have examination of further factors of corporate reputation, which itself is emotional and rational. Considering this, it is hypothesized that:

H3 = MI has a positive significant impact on EA-CR.

H4 = MI has a positive significant impact on CR-PS.

Figure 1

Conceptual Model of the Study



Research Methodology

Sampling

Pakistan has around 759 pharmaceutical companies of which 137 (National Companies: 116 and Multinational Companies: 21) are in Karachi (Choangalia & Deshmukh, 2018). As the top 10 companies **(**National Companies: 6 and Multinational Companies: 4) have roughly 46% of the market (Appendix A), **s**tratified random sampling is used with a sample size of 10% to choose the pharmaceutical companies from four different strata. This represents the sample size of 15 companies (Table 1).

Table 1.
Population and the Sample Size

Companies Category	Population of Companies	Sample Size of Companies
Multinational Companies (in the top 10 companies)	4	1
National Companies (in the top 10 companies)	6	1
Multinational Companies (other than in the top 10 companies)	17	2
National Companies (other than in the top 10 companies)	110	11
Total	137	15

Source: Author's Compilation

Data is collected from the sales force of the 15 companies (Appendix B). The organization of the sales force in a usual pharmaceutical company is as given (Usman, 2018):

- National sales manager
- District sales manager
- Regional sales manager
- Sales representative

This research used the ten times rule of (Hair et al., 2022) for sample size. According to this rule, "10 times the largest number of structural paths directed at a particular latent construct in a structural model."

Research Design

For examining the proposed hypothesized relations, the present qualitative study depends on the primary data gathered from the employees of the pharmaceutical sector of Pakistan. Existing measurement scales of the constructs were utilized after adaptation due to their consistency and robustness in various contexts. The questionnaire was divided into two segments. The first one consists of the items reflecting the constructs, while the subsequent part of the questionnaire consisted of the questions enquired for determining the demographics of the respondents. The pilot study was conducted to determine the legitimacy of the tool. After having reliable results, the questionnaire was presented to the respondents for data gathering. Partial Least Square-Structural Equation Modeling (PLS-SEM) is used for data analysis in current research. It is a second-generation statistical method that is recognized for explaining the greatest variance of the predictor, which other standard regress-based methods fail to achieve (Najmi et al., 2021b).

Pilot Testing and Screening

To make sure the research instrument was reliable, pilot testing was conducted before a full-scale investigation was undertaken. Using SPSS, a reliability analysis was done to verify Cronbach's alpha values. According to (Hair et al., 2022), Cronbach's alpha values ought to

be higher than 0.7. The results confirm that all the constructs have satisfactory reliability since all Cronbach's alpha values were determined to be more than the specified threshold value.

After confirming its reliability, the questionnaire was distributed for a full-scale inquiry. The data was further screened for missing values, univariate outliers, and multivariate outliers. The missing values were replaced by series mean values, while univariate outliers were discovered by the z-score technique. Lastly, multivariate outliers were identified by the Mahalanobis distance technique. The outliers were detected and deleted from the sample.

Table 2.
Source of Measures

Constructs	Number of Items	Sources
PI	2	(Wang & Ahmed, 2004)
MI	2	(Wang & Ahmed, 2004)
EA-CR	3	(Fombrun et al., 2000b)
CR-PS	2	(Fombrun et al., 2000)

Source: Author's Compilation

EA-CR and CR-PS are measured using a valid, reliable, and robust instrument called The Reputation Quotient^{SM} developed by (Fombrun et al., 2000), whereas, (Wang & Ahmed, 2004) instrument is used for measuring PI and MI.

Common Method Biases

There is the maximum possibility of biases because of the methodological operationalization, particularly in studies including primary data, and is denoted as Common Method Biasness (CMB) (Podsakoff et al., 2012). (Podsakoff et al., 2012) have suggested some methods to control CMB and categorized them into two, specifically procedural and statistical measures. Procedurally, adapting the reliable items and having straightforward and comprehensible language controls the probability of CMB, which is employed in the present research. Statistically, the application of (Harman, 1967) test in which the extraction of variables is made by freezing the factor to 1 is applied. The findings prevent the probability of CMB. These tests are also employed in similar research (Najmi et al., 2021a; Najmi & Ahmed, 2018).

Data Analysis and Results

Respondents' Profile

Table 3.
Respondents' Profile

Demographics	Percentage
Company Category	
Multinational Company	21.5%
National Company	78.5%
Experience in the Pharmaceutical Industry	
Less than 1 year	13.9%
1-3 years	20.3%
4-5 years	29.1%
6-10 years	19.0%
Above 10 years	17.7%
Current Position in the Company	
Sales Representatives	78.5%
District Sales Managers	11.4%
Regional Sales Managers	10.1%
National Sales Managers	00.0%
Education	
Under-graduate	00.0%
Graduate	86.1%
Post-graduate	12.7%
Other	1.3%

Source: Authors' Computation

The majority of the respondents are graduates (86.1%), sales representatives (78.5%), and national companies (78.5%). Around 20% of respondents are from multinational companies, nearly the same share of the respondents is comprised of managers (district and regional). About 13% of the respondents are postgraduates. Besides, nearly 50% of the respondents have 1-5 years of experience in the pharmaceutical industry, around 40% have experience of either 6-10 years or above 10 years, while the rest are associated with the industry for less than 1 year (Table 3).

Measurement Model Analysis

Firstly, the Composite Reliability (CR) values are used to analyze the internal consistency. It is recommended that CR should be greater than 0.7 (Hair et al., 2022). Table 4 presents the results of CR, indicating that it meets the recommended threshold value.

The second phase utilizes Average Variance Extracted (AVE) and outer loadings values to evaluate the convergent validity of the constructs. To ensure convergent validity, outer loadings should be ≥ 0.708 and AVE should be ≥ 0.5 (Hair et al., 2022). Table 4 indicates

that both outer loadings and AVE are above the recommended values. Besides, items removed include PI3, PI4, MI2, MI3, CR-PS3, and CR-PS4 as their outer loadings were less than 0.708.

Finally, the discriminant validity was evaluated by the Fornell–Larcker criterion. Table 5 reveals that all the diagonal bold values are greater as compared to the values in horizontal and vertical sites. As per (Fornell & Larcker, 1981), the discriminant validity has been attained.

Figure 2
PLS-SEM Measurement Model

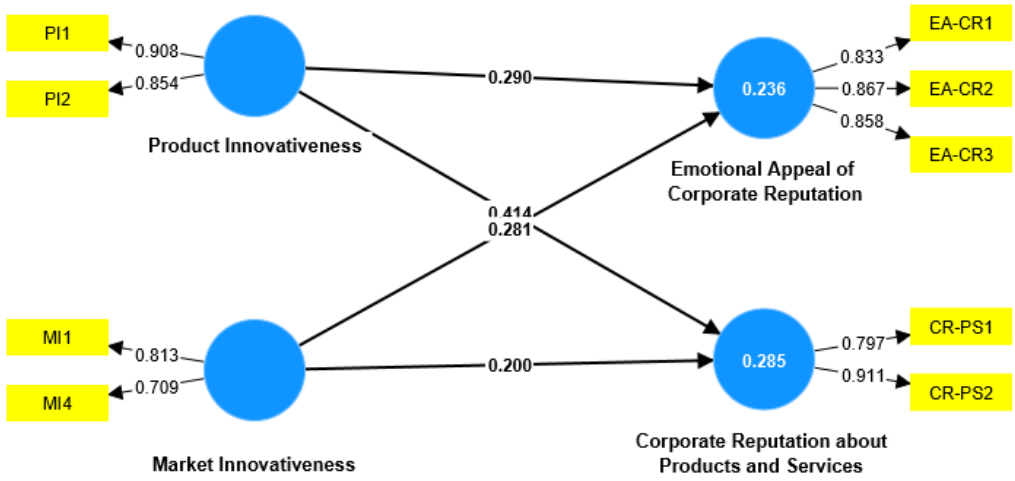


Table 4.
Reliability and Convergent Validity

	Outer loadings
Product Innovativeness (PI) CR = 0.889, AVE = 0.727	
PI1	0.908
PI2	0.854
Marketing Innovativeness (MI) CR = 0.874, AVE = 0.777	
MI1	0.813
MI4	0.709
Emotional Appeal of Corporate Reputation (EA-CR) CR = 0.845, AVE = 0.732	
EA-CR1	0.833
EA-CR2	0.867
EA-CR3	0.858
Corporate Reputation about Products and Services (RA-CR) CR = 0.735, AVE = 0.582	
CR-PS1	0.797
CR-PS2	0.911

Source: Author's Calculation

Table 5.
Discriminant Validity

	Fornell–Larcker criterion			
	CR-PS	EA-CR	MI	PI
CR-PS	**0.856**			
EA-CR	0.606	**0.853**		
MI	0.383	0.410	**0.763**	
PI	0.503	0.415	0.442	**0.881**

Source: Author's Calculation

Structural Model Analysis

To test the study's hypotheses, bootstrapping was used with 5,000 subsamples, as advised by (Hair et al., 2022). The results are presented in Table 6. The study's findings showed that product innovativeness significantly affects CR-PS ($\beta = 0.000$, $p \leq 0.05$) as well as EA-CR ($\beta = 0.017$, $p \leq 0.05$). On the other hand, market innovativeness does not significantly influence CR-PS ($\beta = 0.096$, $p \leq 0.05$), however, its impact on EA-CR is also significant ($\beta = 0.025$, $p \leq 0.05$).

Figure 3

PLS-SEM Structural Model

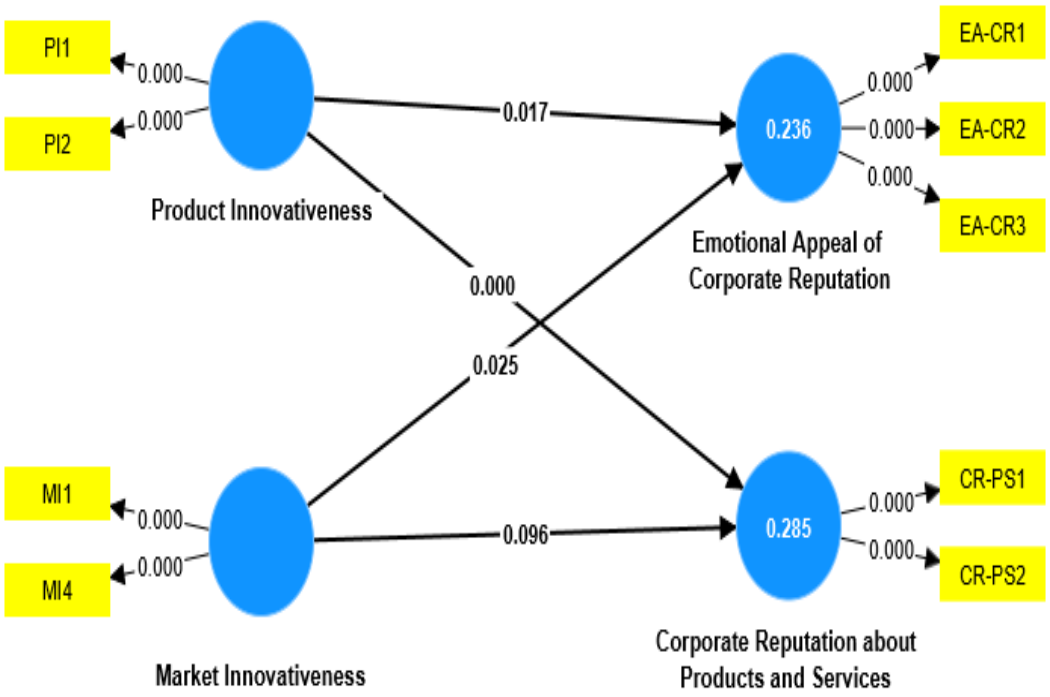


Table 6.

Hypothesis Testing

Paths	Coefficients	T Statistics	P values	Decision
Market Innovativeness → Corporate Reputation about Products and Services	0.200	1.665	0.096	Not Supported
Market Innovativeness → Emotional Appeal of Corporate Reputation	0.281	2.240	0.025	Supported
Product Innovativeness → Corporate Reputation about Products and Services	0.414	4.199	0.000	Supported
Product Innovativeness → Emotional Appeal of Corporate Reputation	0.290	2.394	0.017	Supported

Source: Author's Calculation

Discussion and Conclusion

PI is very important for product success (Sethi et al., 2001; Zirger, 1997) and is also associated with CR (Henard & Dacin, 2010; Kunz et al., 2011). Alongside other industries, the pharmaceutical industry also places a high value on innovativeness, particularly when it comes to bringing new medicines to market (Romasanta et al., 2020). Results of the present study are consistent with the claim and prove that PI has a positive significant impact on CR-PS as well as EA-CR. It means that the goods and services of those companies that introduce innovative and meaningful products to the market in a timely fashion are viewed as superior and innovative and such companies are also admired, liked, and esteemed by various publics. Another aspect of innovativeness taken under consideration in this study is MI which is defined in the present study as "the newness of approaches that companies adopt to enter and exploit the targeted market" (Wang & Ahmed, 2004). The significance of innovativeness in shaping sophisticated CR has been recognized (Chen et al., 2022; Hanaysha, 2021), for example, the study (Hanaysha, 2021) revealed that besides other aspects of innovativeness, market innovativeness significantly influences CR. Results of the current study reveal that MI positively and significantly influences EA-CR. It means that the companies that implement novel methods to enter and exploit the target market are esteemed, liked, and valued by various publics. However, MI does not significantly influence CR-PS according to the results. Based on these results, we can conclude that the bonding of market-based innovativeness with corporate reputation is both emotional and rational.

Recommendations and Future Direction

The role of IC in shaping sophisticated and legitimate CR has been recognized by the researchers (Aladwan & Alshami, 2021; Chen et al., n.d.; Hanaysha, 2021; Ramos-González

et al., 2021). The present research is conducted to determine the impact of selected aspects of IC namely, PI and MI on EA-CR and CR-PS in the pharmaceutical sector of Pakistan. Based on the results, it is suggested that companies in the pharmaceutical industry of Pakistan should work over market-based innovativeness as the goods and services of those companies that introduce innovative and meaningful products to the market at timely fashioned and implement novel methods to enter and exploit the target market are viewed as superior and innovative and such companies are also admired, liked and esteemed by various publics. The study provides fruitful information to policymakers of the industry regarding how they can accelerate the process of creating legitimate and sophisticated CR, which ultimately impacts their financial performance positively (Alvarado-Vargas, 2013; Anderson & Smith, 2006; Eberl & Schwaiger, 2005; Lee & Jungbae Roh, 2012; Raithel & Schwaiger, 2015). Both IC and CR are multidimensional constructs and may have different natures of mutual relationships. Further studies should consider other aspects of both the discussed variables, for instance, process, behavioral and strategic innovativeness corporate reputation about vision and leadership, social and environmental responsibility, etc.

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