Chapter 4

Do Market Orientation and Innovation Improve Organizational Performance?

An International and Comparative Review of the Effects

Valter Afonso Vieira
Maringá State University, Brazil

ABSTRACT

The chapter goal is to test a theoretical model. This framework examines the associations among innovation, market orientation, management outcomes, and business performance. In terms of method, the authors used mega-analysis. Mega-analysis comprehends analysis of other meta-analyses. The data included 16 meta-analyses, which represent over 100,000 responses. The chapter produces four original values to literature. The first main conclusion is that it confirmed all hypotheses proposed. Hence, the theoretical model is empirically consistent. Second, the authors analyzed and compared the different effect-size that market orientation and innovation have over performance. They concluded that market orientation had a stronger effect over performance than innovation and business variables. Third, the authors found that innovation created significant variance on management outcomes. This result supports the notion that innovation has a key role in firm strategy. Fourth, firm investments on innovation and new product development affected firms' performance and profits.

INTRODUCTION

In the marketing concept, the market-centric orientation theme is a relevant topic for studying and comprehending firms' behave. In marketing field, the early studies of Kohli and Jaworski (1990, 1993) and Narver and Slater (1990, 1995) stand out. Market orientation involves an implementation of the marketing concept, since it facilitates a firms' ability to anticipate, react to and capitalize on environmental changes, thereby, leading to superior performance (Shoham, Rose, & Kropp,

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2005). Customer centric marketing is as its name says; it centers on the needs and wants of the customer, and not about what the person doing the selling wants you to buy.

In the evolution of the market orientation concept, two approaches have been adopted (Homburg & Pflesser, 2000). The first one distinguishes three main components: an organization-wide generation of market information about current and future customer needs; a dissemination of such information across departments and individuals within the firm and an organization-wide responsiveness to the disseminated information (Jaworski & Kohli, 1993, 1996; Kohli & Jaworski, 1990, 1993). That behavioural perspective concentrates on organizational and human activities that are related to the creation, propagation of and reaction to market intelligence (Kirca, Jayachandran, & Bearden, 2005).

The second approach is a cultural perspective that focuses on organizational norms and values that encourage behaviours that are consistent with market orientation (Narver & Slater, 1990, 1995), being more intrinsic on the organization. In this point of view, Narver and Slater (1990) present market orientation as a construct created from three elements: customer centric orientation, which focuses on client needs; competitor orientation, which analyzes the opponent strategy, and inter-functional coordination, which introduces cooperation among employees. Customer centric marketing focuses on understanding the problems, concerns, needs and wants of your customer not yours. It assumes nothing and seeks to gain insight into the concerns of potential customer, leading to a mutually beneficial business relationship and a well-satisfied customer. In that context, both market orientation approaches are complementary in explaining firms' performance.

In parallel to the marketing concept, organizations have been giving attention to new product development, innovation and firm technological competence. These three variables are supposed to improve business core competences. For Rogers (1995), an innovation comprehends an idea or object perceived as new by an individual, an agency or a market. According to Robertson and Yu (2001), the perceived newness of the idea from the individual's point of view determines his or her reaction to the new product. If the idea seems new to the individual, it is an innovation.

In that circumstance, an innovation consists of certain technical knowledge about how the things can be done better than existing state of the art (Tyler, 2001). The innovativeness of a new product and firm innovation capability are important for several reasons, since innovation presents opportunities for firms in terms of growth, development, competitiveness and expansion into new areas (Narver, Slater, & MacLachlan, 2004). First, innovation determines more market share. Second, innovation increases firm capabilities. Firm innovativeness degree is described by the development of new information, creative process, different technical changes, and new organizational arrangements (Erdil, Erdil, & Keskin, 2007). Based on this context, we note that not only marketing orientation, but also innovation are managerial tools for improving organizational competence, affecting superior performance.

By its nature, innovation is not a frozen moment in time, but ongoing (Walters, 2008), and while the discipline can be taught (or so the numerous consultants claim), there's no one-size-fits-all way to innovate. According to Voices of innovation (2008), successful innovation contains elements that are hard to quantify and impossible to buy (Walters, 2008). At its best, a spirit of innovation becomes embedded in a corporate culture (e.g. Gillette and Apple), allowing both individuals and firms to thrive (Walters, 2008). Companies that have successfully made innovation part of their regular continuing strategy did so by harnessing the creative energies and the insights of their employees across functions and ranks.