

The Relationships Between Customer Orientation, Innovativeness, Product Innovation Performance and Firm Performance

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Abstract

The purpose of this study is to investigate the relationships between customer orientation, innovativeness, product innovation performance and firm performance. In this context, a research model and related hypotheses have been developed. These hypotheses were tested by the data obtained via questionnaire method from 328 white collar employees working in 53 manufacturing organizations operating in Marmara region. Descriptive statistical methods, factor, correlation and regression analyses were used to analyze the data. Research results indicate that customer orientation has positive effects on innovativeness, innovation performance and firm performance. Besides innovativeness and innovation performance both have positive effects on firm performance. At the last section of the study, the research findings were discussed and future research directions were also presented.

Keywords: Customer Orientation, Innovativeness, Product Innovation Performance, Firm Performance.

1. Introduction

Contemporary organizations face with rapidly changing conditions, severe competition, increasing demand in the markets more than ever day by day. To be able to survive and adapt these changes organizations must also change and try to gain new capabilities and competitive advantage.

Customer orientation is a key focus for any firm's relationship to its market (Frambach, Fiss and Ingenbleek, 2016:1428). As (Day, 1998) points out as a strategic orientation, customer orientation provides the firm with the strategic direction to encourage appropriate behaviors that focus on creating superior customer value and fostering a culture which is conducive to build innovation competencies (Racela, 2014:17).

Hurley and Hult (1998:42) stresses the importance of being engaged in continuous or periodic innovation and reorientation for an industry under the effects of dynamic nature of the markets. Due to fierce competition in the global market innovation and differentiation have become a necessity for every company (Tajeddini and Trueman, 2008; 281). Thompson (1965) defines innovation as the generation, acceptance, and implementation of new ideas, processes, products or services (Calantone, Cavusgil and Zhao, 2002; 515). Innovation is considered to be a key success factor in a firm's sustainable competitive advantage (Rhee, Park and Lee, 2010:65). Innovativeness is defined as the notion of openness to new ideas as an aspect of a firm's culture and innovativeness of the culture as a measure of the organization's orientation toward innovation (Hurley and Hult, 1998; 44).

The present study investigates the relationships among customer orientation, innovativeness, innovation performance and firm performance. Although previous literature consists of studies related with these variables it has not been possible to come across a study analyzing them empirically in a research model together hence we believe that the results of this study will contribute to the related literature. From a

review of relevant customer orientation and innovation literature in marketing and organization studies, a conceptual model that links customer orientation to innovativeness, product innovation performance and firm performance is proposed. Data were collected from manufacturing firms to test the model.

2. Literature Review

2.1. Customer orientation

Narver and Slater (1990:21) defined customer orientation as “the sufficient understanding of one’s target buyers to be able to create superior value for them continuously”. Desphande, Farley and Webster (1993:27) defined customer orientation as “the set of beliefs that put the customer’s interest first, while not excluding those of all other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise”. Later, customer orientation is defined by (Gatignon and Xuereb, 1997:78) as “the firm’s ability and will to identify, analyze, understand, and answer user needs”.

According to the conceptualization made by Narver and Slater (1990:21) customer orientation is one of the three behavioral components composing the construct of market orientation with the other two components namely; competitor orientation, and inter-functional coordination. Narver and Slater (1990, p.21) define the term “market orientation” as “the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business”. Kohli et al. (1993: 467) define market orientation as “the organization wide generation of market intelligence pertaining to current and future needs of customers, dissemination of intelligence horizontally and vertically within the organization, and organization wide action or responsiveness to market intelligence”. Kohli and Jaworski (1990:9) argues that marketing orientation can be viewed as a continuous innovative behavior as it involves being responsive to changing customer or client needs.

As the central component of market orientation, customer orientation is also an important driver of firm performance (Kirca, Jayachandran and Bearden, 2005; Frambach et al., 2016:1428). Being customer oriented allows firms to acquire and assimilate the information necessary to design and execute marketing strategies that result in more favorable customer outcomes (Brady and Cronin, 2001:241). Customer orientation is considered to be a vital concept of firm success (Coley et al., 2010). Arndt and Karande (2012:354) argued that a customer oriented firm would constantly provide maximum level of satisfaction to customers and maximize its success in return in the long run. To maintain a culture to know about the customers better and to satisfy customer needs and to be more sensitive, a quick responding capacity is argued to be more ready to change itself (Roxana et al., 2013: 808).

2.2. Innovativeness

Innovation has been studied in many different disciplines including economics, engineering, science, sociology, and business (Racela, 2014:18). Amabile (1996:1154) states that innovation is the “successful implementation of creative ideas within an organization”. Many firms invest substantial resources to build innovation competencies (Racela, 2014:16).

Innovativeness reflects a firm’s tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes (Lumpkin and Dess, 1996:142). Innovativeness is defined by Hurley and Hult (1998: 44) as “openness to new ideas as an aspect of a firm's culture”. Kibbeling et al. (2013: 503) explain innovativeness as the core way of establishing a firm's relation to the market. Similarly, innovativeness is considered to imply a willingness of the owner to learn about and to adopt innovations in the input and output markets (Verhees and Meulenbergh, 2004).

2.3. Product innovation performance

Product innovation is central to the success of most companies and the rewards of a successful innovation programme are highly visible in terms of sales, profits and growth (Cooper, 1984:5). Prajogo and Ahmed (2006:506) states that product innovation is concerned with generating ideas or the creation of something entirely new that is reflected in changes in the end product or service offered by the

organization. Product innovativeness is the novelty and meaningfulness of new products introduced to the market at a timely fashion (Wang and Ahmed, 2004:306).

Innovation performance is related with the degree of firms' innovativeness and the ability to create and implement new ideas, products and processes (Hult and Ketchen, 2001). Innovation performance is defined as "the ability to transform innovation inputs into outputs, and thus the the ability to transform innovation capability and effort into market implementation" (Zizlavsky, 2016:818). In order to achieve product innovation performance, firms need a deep understanding of innovation dynamics, a well thought innovation strategy, well defined processes related with strategy implementation and more importantly profound tools to measure innovation performance (Hannachi, 2015:23).

2.4. Firm Performance

Tajeddini (2008:281) argues that considerable research over the years is evidence of the interest in innovativeness and customer orientation to enhance business performance. Performance assessment criteria are important for firms to observe the level of dealing with competition and improving their operations. Performance assessment and evaluation is critically important for researchers and managers to be able to observe actions on gaining competition superiority and consumer satisfaction (Bulut et al., 2013).

Firm performance is a multidimensional concept whose indicators can be departmental, such as pertaining to production, finance or marketing, or consequential such as pertaining to growth and profit (Atalay and Sarvan, 2013:228). As well as quantitative measurement tools as financial data and ratios, qualitative performance criteria such as customer satisfaction and customer commitment can be used. Performance is a reflection of both qualitative and quantitative values a firm creates. In this sense, a firm's way of dealing with meeting its goals are directly related to its performance. It is common to use subjective methods to assess success of firms and thus financial performance perception is evaluated on selected criteria (Eren et al. 2013: 102).

3. Research Model

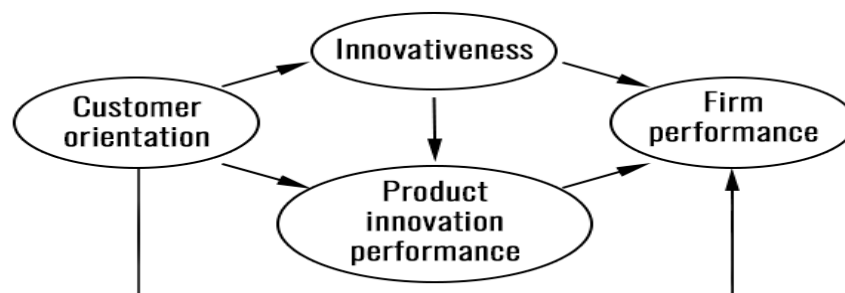


Figure 1. Research Model

3.1. Customer orientation on innovativeness

Customer orientation enhances innovativeness because it involves doing something new or different in response to market conditions (Jaworski and Kohli, 1993). As empirically presented firms understanding and meeting customer needs and improving its relationship with customers are more eager to perform innovativeness (Kohli and Jaworski 1990; Deshpandé et al. 1993; Bulut et al. 2009).

Customer oriented firms do not only improve themselves to meet the needs of their customers, but also to meet the future expectations of the customers (Narver and Slater 1990: 21). Roxana et al. (2013) argues that innovativeness is a result of customer orientation in service businesses. Bulut et al. (2009: 519-520) refers customer orientation as a tool of ability to create difference and a notion directly related to innovativeness. Positive relation of customer orientation and innovativeness is pointed out in previous research and customer orientation is asserted to have a role in innovativeness (Han et al. 1998; Hurley and Hult 1998; Tajeddini et al., 2006). Hence, the following hypothesis is proposed: H1: Customer orientation relates positively to innovativeness.

3.2. Customer orientation on product innovation performance

Juran (1988) argues that implementing a customer-focused action induces continual research related with customer needs can result in organization development and new product development (Hung, Lien, Yang, Wu and Kuo, 2011:216). Customer orientation result to more customer satisfaction, thus more content customers (Kohli and Jaworski 1990: 13).

Gatignon and Xuereb (1997) reported that customer orientation enhances product innovation when demand is uncertain. Lukas and Ferrell (2000) found that customer orientation enhances the introduction of new-to-the-world products. According to these arguments the following hypothesis is proposed: H2: Customer orientation relates positively to product innovation performance.

3.3. Customer orientation on firm performance

Hurley and Hult (1998: 44) emphasize the effect of having a greater capacity to innovate for a firm on developing a competitive advantage and achieving higher levels of performance. Relying on the understanding about a firm's success being depended to customer satisfaction, Arndt and Karande (2012: 354) argue that a customer oriented firm would improve its relationship with customers and processes leading a growth on business success.

Harrison-Walker found that customer orientation had a positive and significant effect on business performance. (2001:162). Yılmaz, Alpkan and Ergun (2005:1346) showed that customer orientation exerted a positive influence on financial performance. Grizzle et al. (2009), emphasize the personal and organization-wide effects of customer orientation to explain increase in business performance. Zhou, Brown, Dev and Agarwal (2007:313) have found a positive and significant effect of customer orientation on performance. Hence the following hypothesis is proposed: H3: Customer orientation relates positively to firm performance.

3.4. Innovativeness on product innovation performance

As Hurley and Hult (1998:44) point out innovativeness is the organization's orientation toward innovation. Innovativeness reflects a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes which may create new products, services, or technological processes (Lumpkin and Dess, 1996:142). Hence the following hypotheses is proposed: H4: Innovativeness relates positively to product innovation performance.

3.5. Innovativeness on firm performance

Damanpour (1991:555) emphasizes the role of innovation on enhancing performance. Hurley and Hult (1998:44) argue that, innovativeness of the firm's culture combined with resources and other organizational characteristics enhances the innovative capacity. The authors further state that firms with greater capacity to innovate can develop a competitive advantage and enhance their levels of performance. Deshpande et al. (1993:31) have found a positive influence of innovativeness on business performance. Cooper and Kleinschmidt (2000) stresses the importance of innovativeness as a critical determinant of business performance. Similarly, Calantone et al. (2002:522) have found that firm innovativeness is positively related to firm performance.

Based on literature review and the findings of prior research innovativeness is expected to have a positive effect on firm performance and thus the following hypothesis is proposed: H5: Innovativeness positively relates to firm performance.

3.6. Product innovation performance on firm performance

Kleinschmidt and Cooper (1991:240) argues that the innovative product is unique, different and may even be patentable and the innovating firm by this way achieves a differentiated and proprietary position and has a higher likelihood of success than the follower.

Innovative performance especially in the form of new product success is linked in the literature to an increase in sales and market shares as it contributes considerably to the satisfaction of current customers and gaining new customers (Günday et al.:2011). Appiah-Adu and Singh (1998:391) found a link between

customer orientation, new product success and company performance. Akgün et al. (2007:508) showed that product innovativeness, influenced by emotional and learning capabilities, has a positive association with firm performance. Similarly Artz et al. (2010) reported that product innovation has a significant impact on firm performance. Basing on these findings the following hypothesis is proposed: H6: Product innovation performance is positively related to firm performance

4. Research method

4.1. Research Sample

Data were collected from the white collar employees of manufacturing companies operating in Marmara region. Survey data have been collected using convenience sampling method. 1000 questionnaires were distributed to the 53 firms that agreed to participate, and 328 completed questionnaires were received. The response rate was 33% on the employee basis. The sample includes large-sized manufacturing companies that have more than 250 employees from three different industries namely chemical products, automotive and machinery and equipment.

4.2. Data Collection Tools

This study used a structured questionnaire to obtain data from the firms. The constructs were measured using scales adapted from prior studies in the literature. Narver and Slater's (1991) customer orientation scale was used for measuring customer orientation with six items. Hurley and Hult's (1998) innovativeness scale was adapted for measuring innovativeness with five items. Product innovation performance was measured with 5 items developed by Prajogo and Ahmed (2006). Firm performance was measured by three perceptual measures derived from Kara et al. (2005). Customer orientation and innovativeness items were measured using five-point Likert type scales, ranging from 1=strongly disagree to 5= strongly agree. For product innovation performance items respondents were asked to evaluate the company's innovation performance against the major competitor in the industry. (1=Worst in industry, 5=Best in industry). Mean scale scores were calculated for all measures and Cronbach's Alpha was used to evaluate the reliability of the scales.

4.3. Findings

The findings about the demographic characteristics of respondents showed that the sample was mostly male 276 (84%) with remaining 52 (16%) female. As to the education level, 254 (77%) are university or higher level graduates, 74 (23%) are high-school graduates. In terms of working years, 45 (14%) of all have been working in the firm for 1-5 years; 124 (38%) for 6-10 years; 70 (21%) for 11-15 years and 89 (27%) for 15 years and above.

Results of the exploratory factor analysis are reported in Table.1 below with factor loads which are fairly high and acceptable.

Table.1 Exploratory Factor Analysis

Variables	Factor Loads	Cronbach's Alpha
Customer Orientation (COR)		0,691
Our company pays close attention to after-sales service.	0,752	
In our company, our business objectives are driven primarily by customer satisfaction.	0,734	
In our company, our competitive advantage is based on understanding customers' needs.	0,723	
In our company, we closely monitor and assess our level of commitment in serving customers' needs.	0,665	
In our company, business strategies are driven by the goal of increasing customer value.	0,592	
In our company we measure customer satisfaction systematically and frequently.	0,574	

Innovativeness (INNO)		0,753
Management actively seeks innovative ideas	0,797	
Innovation, based on research results, is readily accepted in our organisation.	0,786	
Innovation is readily accepted by management.	0,779	
In our company, people are rewarded for new ideas that work well.	0,675	
Innovation in our organisation is encouraged.	0,576	
Product Innovation Performance (PIP)		0,794
The level of newness (novelty) of our firm's new products	0,841	
The use of latest technological innovations in our new products	0,832	
The speed of our new product development	0,815	
The number of new products our firm has introduced to the market	0,823	
The number of our new products that is first-to-market	0,768	
Firm Performance (FPER)		0,871
Our firm achieves profit goals.	0,885	
Our firm achieves sales goals.	0,879	
Our firm is successful in return on investment.	0,827	
Total Variance Explained		% 69,41
KMO Sampling Adequacy		0,853
Bartlett Global Test	Chi-Sq	4548,70
	Df	105
	Sig.	0,000

Internal consistency test results are shown in Table.2. All coefficient values (α) are between 0,691 and 0,871 and variable reliability is above 0,6. As a consequence data and results derived from the data are statistically reliable and valid.

Table.2 Reliability Analysis

VARIABLES	Items	Alpha Coefficient (α)
Customer Orientation (COR)	6	0, 691
Innovativeness (INNO)	5	0, 753
Product Innovation Performance (PIP)	5	0, 794
Firm Performance (FPER)	3	0, 871

Correlations among the research variables, the means and the standard deviations are reported in Table 3. The findings indicate that all variables are positively related to each other. With close statistical relations, highest relationship is found at innovative effect on product innovation performance (,497); and lowest at customer orientation on firm performance (,324).

Table.3 Correlation Values and Descriptive Statistics

Variable	COR	INNO	PIP	FPER	Mean	S.Dev.	N
COR	1				4,217	0,779	328
INNO	,379**	1			4,066	0,663	328
PIP	,441**	,497**	1		4,144	0,749	328
FPER	,324**	,396**	,354**	1	4,051	0,673	328

** . Correlation is significant at the 0.01 level (2-tailed).

In this study multiple regression model is used to test the hypotheses and the results are reported below. F values are statistically significant for all regression models. Multicollinearity was assessed via variance inflation factor (VIF) and does not seem to cause serious problems ($VIF < 3$). In addition, Durbin-Watson statistics examined to check autocorrelation problem between the independent variables that do not effect to regression results because of values between 1.5 to 2.5.

Customer orientation is positively related to innovativeness ($\beta=0,379$, $p < 0.01$) and R^2 has a value of 0,129 indicating that customer orientation can explain 12,9 % of the increase in innovativeness. Thus H1 is accepted. Customer orientation is positively related to product innovation performance ($\beta=0,441$, $p < 0.01$) and R^2 has a value of 0,196 indicating that customer orientation can explain 19,6 % of the increase in product innovation performance. Therefore, H2 is accepted. Customer orientation is positively related to firm performance ($\beta=0,324$, $p < 0.01$) and R^2 has a value of 0,108 indicating that customer orientation can explain 10,8 % of the increase in firm performance. For this reason, H3 is accepted. Innovativeness is positively related to product innovation performance ($\beta=0,497$, $p < 0.01$) and R^2 has a value of 0,231 indicating that customer orientation can explain 23,1 % of the increase in product innovation performance. Thus H4 is accepted. Innovativeness is positively related to firm performance ($\beta=0,396$, $p < 0.01$) and R^2 has a value of 0,168 indicating that customer orientation can explain 16,8 % of the increase in firm performance. Therefore, H5 is accepted. Product innovation performance is positively related to financial performance ($\beta=0,354$, $p < 0.01$) and R^2 has a value of 0,194 indicating that customer orientation can explain 19,4 % of the increase in financial performance. For this reason, H6 is accepted.

Table.4 Regression Analysis

Model variables		S.Beta	t value	Sig. (p)	F value	R ²	Durbin-Watson	VIF	Test Results
Independent Variable	Dependent Variable								
	INNO (H1)	0,379	9,987	0,000	48.282**	0,129	1,774	1,148	Accepted
COR	PIP (H3)	0,441	12,895	0,000	79.472**	0,196		1,244	Accepted
	FPER (H3)	0,324	7,426	0,000	39.471**	0,108		1,121	Accepted
	PIP (H4)	0,497	14,973	0,000	97.927**	0,231	1,814	1,300	Accepted
INNO	FPER (H5)	0,396	11,258	0,000	65.827**	0,168		1,202	Accepted
PIP	FPER (H6)	0,354	7,327	0,000	78.466**	0,194	1,646	1,241	Accepted

** . Regression is significant at the 0.01 level (2-tailed).

5. Discussion

According to the results of this research, customer orientation has a significant and positive effect on innovativeness. Thus hypothesis 1 was accepted. Similar studies in the literature also support this result (Han et al. 1998; Hurley and Hult 1998; Tajeddini et al. 2006; Eren et al. 2010). It is derived from the results of this study that customer orientation has a positive effect on product innovation performance. Hence hypothesis 2 was accepted. This finding is consistent with the previous research findings (Gatignon and Xuoreb, 1997; Lukas and Ferrell, 2000).

Our results also indicated that customer orientation has a positive effect on firm performance. Thus hypothesis 3 was accepted. This finding is supported by previous research results (Deshpandé et al. 1993; Jaworski and Kohli, 1993; Han et al., 1998; Hurley and Hult, 1998; Grizzle et al., 2009; Coley et al., 2010). Innovativeness has a positive effect on product innovation performance according to the results of this study. Therefore hypothesis 4 is accepted. Results presented are consistent with the previous findings in the literature (Günday et al., 2011; Atalay et al., 2013).

Firms must deal with changing market conditions and keep up with changing customer needs to improve and even to keep their income. Innovativeness has a positive effect on financial performance according to the results of this study. Thus hypothesis 5 is accepted. This result is consistent with the previous research (Han et al., 1998; Calantone et al., 2002; Matsuo, 2006; Rubera and Kirca 2012; Rhee et al., 2010). According to the results derived from this research new product innovation performance has a positive effect on firm performance (H6). The previous research findings support this result (Adu and Singh, 1998; Akgün et al. ,2007; Artz et al., 2010; Günday et al.,2011).

This study has several limitations that should be noted. Firstly, the study is limited to large manufacturing companies from one region of Turkey. Thus the results may not be generalized to other companies. Secondly, the study emphasizes the importance of customer orientation and links it with innovativeness, innovation performance and firm performance but it does not address the antecedents of customer orientation. Thirdly, all data are collected in a cross-sectional manner. Further studies could identify the antecedents of customer orientation and construct new research models including other consequences. And this model and developed versions with more variables can be tested using different samples from service industries.

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