



Improving firm performance through NPD: The role of market orientation, NPD orientation and the NPD process

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ABSTRACT

Achieving sustained business performance is a challenge for many firms. Nowhere is this more obvious than in the food and packaged goods domain where manufacturers are significantly affected by globally aggressive competitors and retailers. Drawing on the resource-based view of the firm this study of 173 food manufacturers finds that the NPD process is a capability enabling the translation of a firm's market orientation and its NPD orientation, both resources, into superior NPD program success, thereby enhancing overall firm performance. The results help clarify the somewhat ambiguous relationship between market orientation, product innovation and firm performance and demonstrate that firms wishing to leverage product innovation must have the cultural and structural foundations of both a market orientation and NPD orientation. Importantly, they must implement a well-executed NPD process in order to translate these broader firm resources into performance outcomes.

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1. Introduction

Achieving superior market place performance in an increasingly competitive business environment requires firms to be committed to new product development and to use firm resources and capabilities to ensure that the on-going program of new product development is successful (Hsieh et al., 2008; Kleinschmidt et al., 2007; Olavarrieta and Friedman, 2007; Paladino, 2007). Firm resources such as a market-oriented culture, formal design of the NPD process, resource commitment, planning processes and management commitment to NPD have been linked with success (Cooper and Kleinschmidt, 1995). Kleinschmidt et al. (2007) argue that the proficient execution of the NPD process is the mechanism or capability through which a firm's NPD-related resources are translated into performance outcomes and suggest that the resource-based view of the firm might be a better lens through which to understand the nature of drivers of new product success in globally competitive environments.

Several articles have offered insights into the role of product development in the light of the resource-based view (RBV) of the firm (e.g. de Brentani et al., 2010; Ngo and O'Cass, 2008; Madhavaram and Hunt, 2008; Olavarrieta and Friedman, 2007). It is only recently

however that research has sought to combine market orientation and resource-based views in the context of product development success (Kleinschmidt et al., 2007; Paladino, 2007, 2008). According to Paladino (2007, 2008) the RBV and market orientation have both been used to explain the attainment of superior performance. RBV emphasises the importance of exploiting internal firm resources to achieve advantage, whereas market orientation emphasises the importance of gathering and employing customer and competitor insights to help shape marketing actions. As Paladino (2008) further argues, the ultimate objective of a RBV is to understand how firms create persistent above-normal returns and superior value by developing and deploying unique and costly to imitate resource bundles. The ultimate objective of the market-oriented firm is to create superior value for the customer using its resources and capabilities (Narver and Slater, 1990; Paladino, 2008).

Although much research has focused on NPD success, particularly at the project level (e.g. Hsieh et al., 2008), rather less is focused on the program level and its subsequent influence on firm performance. A program level focus reflects an understanding that program level success may be somewhat different than at the project level and that some firm influences on NPD e.g. firm culture, might not be apparent at the project level and yet may be important to success (Atuahene-Gima et al., 2005; Cooper and Kleinschmidt, 1995; Kleinschmidt et al., 2007; Olavarrieta and Friedman, 2007; Paladino, 2007).

This research subsequently presents a model of the relationship between the firm's resources of market orientation, and NPD

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orientation, and the NPD process capability that promotes both NPD program success and overall firm performance. In doing so the research builds on the work of Langerak et al. (2007), Kleinschmidt et al. (2007) and Paladino (2007, 2008) to further understand the impact of organisational resources and their translation into performance outcomes through organisational capabilities.

The context for this research is the Australian food manufacturing industry. Food manufacturers are facing significant competitive challenges that may be alleviated, at least partly, through improved performance of their NPD programs. Manufacturers have found themselves sandwiched between two dominant grocery retail chains, a highly consolidated industrial food service industry, and increasing levels of imported foods and food brands. The food retail situation is of particular interest in that two chains account for around 71% of the nation's AUD\$83bn grocery trade (Burgio-Ficca, 2011). The implementation of private label programs by both major chains places even greater pressure on manufacturers to innovate their products and it has been suggested that both chains are targeting 20–30% or more of sales in particular categories.

2. The resource-based view and NPD

The resource-based view of the firm provides an effective lens through which to examine NPD success at the program level (de Brentani et al., 2010; Kleinschmidt et al., 2007). Resources and capabilities are central constructs of the resource-based view of the firm and are considered essential in gaining a sustainable advantage over other firms (Barney, 1991; Peteraf, 1993; Slater and Narver, 1994; Wernerfelt, 1984). Resources have been classified as tangible, e.g. financial and physical assets, plant and equipment, and intangible e.g. human capital, know-how (Hunt and Morgan, 1995). According to Ngo and O'Cass (2008) the tangible–intangible resource dichotomy is analogous to the operand–operant resource dichotomy suggested by Vargo and Lusch (2004) and more recently, Madhavaram and Hunt (2008). Operand resources refer to resources on which an operation is performed to produce an effect e.g. land, plant, or raw materials. Operant resources refer to those that operate on operand resources to produce effects, for example, firm processes and competences (Ngo and O'Cass, 2008). In the context of this study two variables can be considered operant resources; market orientation (Hunt and Morgan, 1995; Olavarrieta and Friedman, 2007) and NPD orientation.

A meta-analysis by Henard and Szymanski (2001) identified 24 antecedents to new product performance. These were categorised into four areas; product characteristics, firm strategy characteristics, firm process characteristics and marketplace characteristics. Relevant at the program level 'firm strategy characteristics' consists of those drivers that are associated with the firm and management of the NPD program within the firm. In this study the category is considered an operant resource and is labelled *NPD orientation*, albeit with slightly different allocations of the drivers which is not inconsistent with the literature (e.g. Kleinschmidt et al., 2007).

Increasingly the RBV literature is establishing the importance of firm capabilities in the resource – performance relationship (Newbert, 2007). Capabilities are processes, or embedded routines that deploy or transform the firm's resources into desired outcomes (Morgan et al., 2009) As Ngo and O'Cass (2008) suggest, firms will (or should) have as many capabilities as are necessary to transform their resources (operand and operant) into valuable outputs. An essential characteristic of a capability is that a firm performs the process better than its competitors. In this study, drawing from Henard and Szymanski's (2001) 'firm process characteristics' category, *NPD process* is the capability proposed to transform the resources of market orientation and NPD orientation into NPD program success and subsequently firm performance.

In summary, this research assesses firm performance in terms of four main components: (1) a firm's market orientation which is seen as a resource that provides a cultural foundation for market focused management of NPD; (2) a firm's NPD orientation which is seen as a resource that underpins their overall approach to NPD; (3) a firm's NPD process and its execution which is the capability that captures the comprehensiveness and thoroughness of the stages of the NPD process; and (4) the contribution of NPD program success to overall firm performance. As with Kleinschmidt et al. (2007) these are modelled in antecedent terms where the impact of resources on performance is mediated by capabilities (Fig. 1).

3. Hypotheses

3.1. Market orientation

An extensive market orientation literature has been produced in the last 20 years. Several meta-analyses have been conducted that

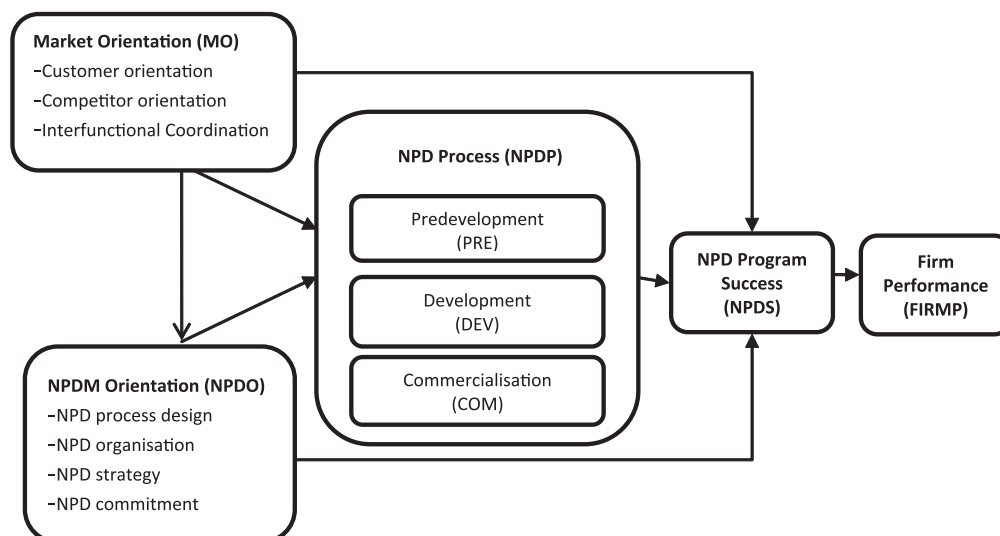


Fig. 1. Conceptual framework.

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