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The influence of business strategy on new product activity: The role of market orientation

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Abstract

In this paper, we propose that business strategy influences new product activity both directly and indirectly via its influence on market orientation. Accordingly, we develop a framework linking firms' relative emphasis on cost leadership, product differentiation and focus strategies to firms' customer and competitor orientation as well as their new product development and introduction activity. We use this framework to develop a simultaneous equations model that is tested on survey data from 175 Dutch firms of varying size and across different industries in the manufacturing sector. The surprising findings are that a greater emphasis on a focus strategy results in a decreased emphasis on customer orientation and that competitor orientation has a negative direct influence on new product activity and an indirect positive effect via customer orientation. We discuss the implications of these findings for theory and practice.

Keywords: Strategy; Market orientation; Innovation; New product activity

1. Introduction

New product development and introduction are activities of vital importance to the growth and performance of firms. Despite considerable research into factors leading to successful new product activity (e.g., Henard & Szymanski, 2001; Montoya-Weiss & Calantone, 1994) as well as the consequences of such activity (e.g., Cardozo, McLaughlin, Harmon, Reynolds, & Miller, 1993; Manu & Sriram, 1996), little work has examined how business strategy influences the degree to which new product development and introduction is undertaken within the firm (Dröge & Calantone, 1996, p. 559; Zahra, 1993; Zahra & Covin, 1993). The limited attention to the strategy–new product activity relationship is surprising given that new product activity is of strategic importance to firms and is therefore very likely to be influenced by the firm's strategic choices. For instance, a firm that primarily follows a strategy of product differentiation is more likely to be involved in new product development than a firm that follows a cost leadership strategy (Porter, 1980). Likewise, prospector firms are likely to be more intensely involved in

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new product activity than firms that pursue other strategy types (Miles & Snow, 1978). In this paper, therefore, we focus on how firms' relative emphasis on different business strategies influences the degree to which they engage in new product development and introduction. Further, we aim to open up the 'black box' between strategy and new product activity by studying the role of a potential mediator, namely market orientation.

Recent research suggests that the degree to which a firm is involved in new product activity depends on the extent and nature of its market orientation (Athuene-Gima, 1995, 1996; Han, Kim, & Srivastava, 1998; Hurley & Hult, 1998; Narver, Slater, & MacLachlan, 2000; Ottum & Moore, 1997). Summarizing this view, Narver et al. (2000, p. 11) state that "a market orientation, whether reactive or proactive, is the foundation for a firm's innovation efforts." Market orientation may be considered at multiple levels in the firm (Deshpandé, 1999) and is, accordingly, conceptualized in two ways in the current literature: as an organizational culture and as a set of behaviors. The first, cultural view considers market orientation as a set of organization-wide shared values. It posits a causal chain leading from these values, through norms for market orientation that reflect expectations about specific behaviors, to actual market-oriented behaviors themselves (Deshpandé & Webster, 1989; Homburg & Pflesser, 2000). As business strategy is an indisputable reflection of organizational choices (Porter, 1996), a firm's strategy is also likely to be influenced by its cultural values. In the cultural view, therefore, market orientation would precede business strategy. In contrast to the cultural view, the second, behavioral view posits market orientation as consisting of a set of behaviors and resource allocations reflective of an organization-wide responsiveness to customers' needs and wants (Noble, Sinha, & Kumar, 2002; see Kohli & Jaworski, 1990; Ruekert, 1992). Such behaviors serve to implement specific choices made by an organization and are therefore likely to follow from the firm's specific strategy (Walker & Ruekert, 1987).

In this paper, we adopt the behavioral view of market orientation. Accordingly, we conceptualize strategy as influencing market orientation rather than vice versa, and hypothesize specific links between different strategies and the behavioral components of market orientation. Consistent with Narver and Slater (1990), we consider two behavioral components of market orientation: customer and competitor orientation. Most of the large body of work on market orientation has not made the distinction between firms that are primarily customer-oriented versus those that are primarily competitor-oriented. Similar to Han et al. (1998), Noble et al. (2002), and Slater and Narver (1994), we treat the market orientation construct as multidimensional. Further, firms' orientation towards customers or competitors is likely to influence how they respond to changes in the marketplace, in particular, the extent to which firms develop and introduce new products. Therefore, the extent and nature of a firm's market orientation will at least partially mediate the relationship between the firm's business strategy and its new product activity. For example, a firm that mainly follows a differentiation strategy could pursue new product activity in different ways depending on whether its focus is on customers (pro-active) or competitors (reactive). While a pro-active firm will identify and respond to long-term customer needs and thus be more customer-oriented (Narver et al., 2000; Slater & Narver, 1998), a reactive firm will identify and respond to competitors' actions and thus be more competitor-oriented (Schnaars, 1994). Our conceptualization of market orientation within the context of the business strategy of the firm—conceptualized as an antecedent of market orientation—and the actual implementation of this strategy through new product activity—conceptualized as a consequence of a specific type of market orientation—extends Jaworski and Kohli's (1993) framework of antecedents and consequences of market orientation to a strategic context. It is also consistent with the implementation literature on how strategic marketing choices are executed within the firm (Noble & Mokwa, 1999).

By doing the above, this paper contributes to the extant literature in the following ways. First, it helps to further our understanding of how firms' strategic choices influence the degree to which new product development and introduction activities are undertaken within the firm. In contrast to the existing research on new product development which typically takes a prescriptive stance (a focus on the factors that determine successful from unsuccessful products), we adopt a descriptive approach that seeks to understand