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The impact of market orientation on product innovativeness and business performance

Izabela Leskiewicz Sandvik, Kåre Sandvik*

Buskerud University College, Serviceboks 6, N-3504 Hønefoss, Norway

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Abstract

The paper reports a study of the impact of market orientation on business performance. The use of product innovativeness is proposed as a mediator of the influence of market orientation on business performance. Product innovativeness is defined along two dimensions: use of new-to-the-firm and use of new-to-the-market products. Business performance was represented by relative price premium, sales growth, capacity utilization, and profitability. The findings provide support for the positive influence of market orientation on both dimensions of product innovativeness. However, only use of new-to-the-market products turns out to be a positive contributor to business performance.

Keywords: Market orientation; Product innovativeness; Business performance; Hotel industry

1. Introduction

In recent years there has been an increased focus on the relationship between market orientation and business performance. Studies of this issue have generally demonstrated that market orientation has a positive impact on firm performance (e.g., Jaworski & Kohli, 1993; Narver & Slater, 1990; Pelham & Wilson, 1996; Slater & Narver, 1994, 2000a, 2000b). However, few studies have investigated the potential mediators of the market orientation/performance relationship (for exceptions, see Atuahene-Gima, 1996; Han, Kim, & Srivastava, 1998). Such research is needed to understand how market orientation influences the different competitive parameters of the firm (e.g., price, advertising, distribution, etc.), and, in turn, how market orientation indirectly affects business performance.

A firm's ability to employ new and successful product innovations is an important competitive weapon. Indeed, Jaworski and Kohli (1996) and Varadarajan and Jayachandran (1999) have argued that innovation has been inappropriately absent in models of market orientation. They suggest that future studies of market orientation should include the effects of market orientation on innovativeness of goods and services, in order to learn more about how market orientation works, and how it may be beneficial as a strategic firm capability. Consequently, this study explicitly includes the use of product innovation as a mediator of the relationship between market orientation and firm performance. More specifically, it explores the influence of market orientation on the use of the two dimensions of innovativeness that have been suggested by scholars of market orientation (Atuahene-Gima, 1995, 1996; Danneels & Kleinschmidt, 2001; Jaworski & Kohli, 1996; Lukas & Ferrell, 2000). These two dimensions are: new-to-the-firm products and new-to-the-market products (Booz, Allen, & Hamilton, 1982; Danneels &

* Corresponding author. Tel.: +47-3211-7209; fax: +47-3211-7110.

E-mail address: Kare.Sandvik@hibu.no (K. Sandvik).

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Kleinschmidt, 2001; Kleinschmidt & Cooper, 1991; Olson, Walker, & Ruekert, 1995). There is little research that conclusively demonstrates the effects of using new-to-the-market and new-to-the-firm product strategies (for exceptions, see Atuahene-Gima, 1995, 1996; Cooper, 1994; Lukas & Ferrell, 2000). Thus, the goal of this research is to explore these effects on business performance.

2. Conceptual model and propositions

The model presented here consists of three general categories of concepts: the facets of the firm's level of market orientation (antecedent), the use of product innovations (mediator) and the facets of business performance (outcome). The definitions of the concepts and the specific hypotheses are developed and discussed below.

2.1. Market orientation

A widely accepted definition of market orientation is "the organization-wide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organizationwide *responsiveness* to it" (Kohli & Jaworski, 1990, p. 6, emphasis added). Market orientation is a multifaceted concept where the three facets can be viewed as mutually dependent elements. The organization is expected to gather information for the purpose of distributing it organization-wide for decision use. The more match among the three dimensions of market orientation activities, the less waste of resources and the more efficiently the different activities are performed. Ideally, all information generated should be distributed, and all distributed information should be considered for use in the different market related decisions. The greater the gap between these stages, the less smoothly and efficiently the market orientation information system activities will be performed. Information might be gathered, but not used. Decisions about markets might be made without market knowledge and market information, and so on. Additionally, when the organization uses market information in decisions, it is expected to learn the efficiency of the information generation and dissemination, and thus, they learn what kind of information is useful to the firm.

In the market orientation literature, Kohli, Jaworski, and Kumar (1993, p. 473) suggest that a causal ordering among the dimensions of market orientation may overcome potential weaknesses of the current approach to the market orientation construct. In a pragmatic sense, the three dimensions of market orientation activities are most effectively organized as follows: generation → dissemination → responsiveness. A market-oriented company should be expected to gather market information, to disseminate this information, and eventually, utilize the information as a basis for the collective and individual decisions and behaviors. Therefore, each of the dimensions should be viewed as necessary, but not sufficient conditions for market orientation. Additionally, each dimension constitutes an upper limit for the firm's (overall) market orientation. It makes little sense to argue that a company is highly market oriented if market information is gathered but not utilized in the firm's decision processes. Non-utilized market information is of very limited value for the company. In fact, an uneven amount of emphasis on each of the dimensions can cause a costly and false impression of being market oriented (Kohli & Jaworski, 1990). Since a company can be strong on one part of market orientation but lacking on other parts, this is not consistent with the market orientation concept.

Empirical literature has combined these facets of market orientation as a 'volume index' (Jaworski & Kohli, 1993; Kohli et al., 1993; Narver & Slater, 1990). Such an approach does not reward balance among the different dimensions. For instance, an organization that gathers much information but only disseminates some of it, and then only has a limited response to the information, may receive the same overall score on market orientation as a company that generates some information, disseminates most of it and responds to most of it.[1] Consistent with the

[1] The following simple example for a company's score on the three dimensions of market orientation provides an illustration of the difference between the two approaches.

Generation	Dissemination	Responsiveness	Additive index	Multiplicative index
14	10	6	30	840
10	10	10	30	1000