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How managerial attitudes toward the natural environment affect market orientation and innovation

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ABSTRACT

This study investigates natural environmental attitude linkages held by strategic decision makers and hypothesizes that the interaction between market orientation and managerial natural environmental attitudes serves to enhance the effect of market orientation on firm innovativeness. Using questionnaire responses from 284 owners or chief executive officers residing in the food processing industry, the findings establish evidence of (1) a positive linkage between market orientation and firm innovativeness, and (2) the moderating effect of managerial attitudes of top managers toward the natural environmental in the market orientation to firm innovativeness relationship. The results provide insight into the nature of the cultural values on which a market orientation is based in relation to the natural environment.

1. Introduction

Business relationships and practices are changing and savvy customers are making purchasing decisions using multiple financial and non-financial metrics. Similarly, stakeholders, such as suppliers and investors, increasingly and characteristically make their involvement commitments subject to a range of provisos and conditions (e.g., natural environmental firm reputation) and monitor their on-going association using more than purely financial-based rationale.

Scholars have responded by developing tools to help managers address this shift in focus. Notably, Kaplan and Norton (1992, 2001), developed their balanced scorecard because exclusive reliance on financial measures in a management system is deemed insufficient. Centered on the identification of both lag and lead indicators, the balance scorecard includes the measurement and management of tangible and intangible assets.

Though not definitive, there is growing anecdotal evidence that a considerable amount of the greater inclusion of non-financial metrics when making strategic decisions can be credited to transforming attitudes toward the natural environment. Society, seemingly, is becoming more vigilant in matters related to the state of the environment. Scholars from all disciplines, also, are playing a more prominent role in establishing the nature of this changing business landscape. Using a firm's market orientation as the focal point, this current research adds to this burgeoning stream of inquiry.

Considerable research has investigated market orientation (Cadogan et al., 2008; Ellis, 2006; Zhou et al., 2008). Overall, research findings point to a positive impact of market orientation on both firm innovativeness and firm performance. For example, recent research has investigated the interaction of constructs such as a learning orientation and innovativeness with market orientation (Zhou et al., 2005). Although competitive environmental turbulence and similar constructs have been incorporated into many of these efforts, specific trends in the natural environment have not been examined. Herein is a gap in the literature because there is increasing evidence that, as society evolves, stakeholder expectations of businesses, and their resulting responsibility for the protection of the environment will increase (Maignan and Ferrell, 2004).

In this current research, the natural environmental attitudes held by managers are investigated, specifically environmental attitudes including applying additional resources of the firm to the protection of the natural environment and CEOs leading environmental protection efforts (Karp, 1996). The interaction between market orientation and managerial attitudes toward the natural environment are hypothesized to enhance the effect of market orientation on firm innovativeness. As such, the primary research question investigated in this manuscript is: How do natural environmental attitudes held by managers, in concert with market orientation, impact firm innovativeness? Addressing this question is central to this study as firms with top management who recognize the potential for innovative changes in their services and products, which are fostered by marketplace and consumer interest in environmental sustainability, will have an advantage over those slower to respond to this consumer concern.

The manuscript proceeds by introducing the theory and extant research that underpin the proposed arguments. Hypotheses are

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distilled, and the sample used to test these hypotheses is presented. Results precede the discussion and implications section, followed by limitations and future research.

2. Theoretical background and hypotheses

2.1. Market orientation (MO)

A market orientation is the focus of a firm that treats marketing as a cross-functional responsibility where meeting customer needs is an overriding priority for the entire organization (Narver and Slater, 1990). Early market orientation research efforts concentrated on the connection between market orientation and firm financial performance. Dawes' (2000) investigation of 36 scholarly studies found only three in which there are no significant associations between market orientation and firm performance. Further, Ellis' (2006) meta-analysis concluded that around 10% of the variation in performance in U.S. firms can be attributed to market orientation. This strong positive relationship is attributed to superior skills in market sensing, imitation, and innovativeness (Han et al., 1998; Tajeddini et al., 2006).

Many questions exist regarding how market orientation influences different metrics of firm performance. The preponderance of evidence, however, suggests a positive relationship between market orientation and firm performance, thus providing motivation for researchers to concentrate on other contributing constructs and their relationships with market orientation. Researchers have pursued efforts to unravel the complex relationships between market orientation and additional constructs including organizational culture (Gebhardt et al., 2006), entrepreneurship (Bhuiana et al., 2005), innovation (Han et al., 1998; Laforet, 2008), and innovativeness (Tajeddini et al., 2006).

According to Narver and Slater's (1990) culture-rooted thesis, market orientation consists of three dimensions: customer orientation, competitor orientation, and interfunctional coordination. Focusing on customer needs allows a company to provide superior value and leads to higher levels of customer satisfaction. Concurrently concentrating on competitors and routinely discussing competitor strengths and weaknesses allows for rapid responses to competitive threats. Interfunctional coordination refers to the integration of all members of the firm in meeting customer needs. The outcome of this multi-dimensional approach is the increased likelihood of the provision of superior value to customers, widely considered key for maximizing long-term profitability (Kumar et al., 1998).

There is strong evidence in the literature to support market orientation as organization culture-related (Gebhardt et al., 2006; Kohli and Jaworski, 1990; Narver and Slater, 1990). Schein (citing Schein, 1992) depicts "culture as the set of shared, taken-for-granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments" (1996, p. 236). Deshpande and Webster (1989) position organizational culture as the pattern of shared values and beliefs that help members of an organization understand why things happen and thus teach them the behavioral norms in the organization. These norms are eloquently framed by Schein (1996) as the visible manifestation of cultural assumptions. Relevant to the current context, market orientated norms establish tenets of organizational behavior with respect to customers, competitors, and internal functional coordination activities (Han et al., 1998).

2.2. MO and firm innovativeness

Extant research has demonstrated a strong relationship between market orientation and innovativeness (Tajeddini et al., 2006). Tajeddini et al. (2006) denote innovativeness encompasses the capacity of an organization to improve manufacturing and management systems processes and is not restricted to only innovations in products or services. The basis for this connection is related to each of the three components of market orientation. First, a firm possessing a strong market orientation is close to the customer base and is able to meet changing demands, with respect to physical products or the myriad of services associated with those products. Similarly, the market-oriented firm constantly monitors the actions of competitors, which positions it to proactively imitate those actions deemed important for meeting customer demands. Finally, interfunctional coordination disseminates knowledge gained from customers and competitors among individuals and departments within the company thus equipping the firm with the knowledge and information necessary to facilitate innovation.

Grinstein (2008), in his recent article, conducted a meta-analysis on the relationship of market orientation to firm innovativeness. His findings indicate market orientation has a positive effect on innovativeness. The extent of a competitor orientation is highly interdependent on the strength of the customer orientation in relation to firm innovativeness, suggesting a strong interdependence among the components of marketing orientation in relation to firm innovativeness. The strength of the market orientation to firm innovativeness relationship increased if a firm is in a competitive environment, when the competitive environment could be characterized as being volatile, changing technologies, and highly dynamic through external changes.

Market-oriented companies have a high propensity to satisfy both current and future needs of customers. In this way, a market-oriented company is positioned to effectively develop both incremental and more radical innovations. In other words, market-oriented companies utilize their customer and competitor knowledge to shift products and processes to meet evolving customer needs, develop new products to meet latent customer needs, and identify potential new customers. This leads us to hypothesize that:

H1. Market orientation is positively associated with a firm's innovativeness.

2.3. MO, managerial attitudes toward the natural environmental & innovativeness

As the natural environment emerges as a strategic issue for many businesses, conceptual linkages are leading to empirical investigations examining the antecedents and effects of firm-held environmental attitudes on firm processes. Societal expectations around the world regarding firm natural environmental performance have continued to change from one of neglect or apathy to a greater concern for environmental protection (Hillman et al., 2004; Husted and Allen, 2007; York and Venkataraman, 2010). Likewise, other scholars have suggested that managerial attitudes toward the environment are evolving as consumers are demanding greater corporate social responsibility (Maignan and Ferrell, 2004) and that these changed managerial attitudes have been linked to an increase in firm financial performance (Dibrell and Craig, 2006; Russo and Fouts, 1997). Example manifestations of this change are increased legislation and advocacy-related actions of environmental non-governmental organizations (Banerjee, 2002).

Companies have responded by being more proactive regarding environmental and social issues. This phenomenon has been referred to as corporate citizenship (Maignan and Ferrell, 2004), corporate environmentalism (Banerjee, 2002), and natural environmental strategy (Aragón-Correa et al., 2008; Sharma and Vredenburg, 1998). In practice, companies are participating in a variety of activities ranging from implementing environmental management systems, to sustainability or environmental reporting, and to philanthropic giving (Cordano and Frieze, 2000). As firms recognize, manage, and reduce environmental impacts, they can potentially reap competitive