



## Speed or quality? How the order of market entry influences the relationship between market orientation and new product performance

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### ABSTRACT

The role of market orientation as an antecedent of new product performance has been extensively documented in the literature. What is less clear, however, is how firms should make use of their market orientation under different market conditions. This study addresses this question by investigating how market orientation leads to superior new product performance for products that enter the market at different times. In particular, the study examines the moderating effect of order of market entry on the mediated relationship between market orientation and new product performance via product quality and innovation speed. Data from a sample of 244 new product development projects show that a firm's market orientation can improve the performance of first-to-market products and late entrants by facilitating the development of quality products, whereas it can improve the performance of early entrants by facilitating greater innovation speed.

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### 1. Introduction

Successful new product development (NPD) is widely recognized as a critical determinant of firm performance and competitive advantage. By finding new or better solutions to customer problems, NPD can both transform existing markets and create new ones. Without innovation, incumbents slowly lose both sales and profitability as competitors innovate past them (Hauser, Tellis, & Griffin, 2006). In view of the increasing levels of competition and decreasing product life cycles, a firm's ability to develop new products successfully has become more important than ever (Art, Norman, Hatfield, & Cardinal, 2010). However, NPD is a complex and difficult process (Balachandra & Friar, 1997).

The role of market orientation (MO) as a strategically valuable resource for successful NPD has been extensively documented in the literature (Baker & Sinkula, 2005; Grinstein, 2008). However, although there is strong evidence to support the relationship between MO and new product (NP) performance, there is a limited understanding of how firms deploy MO under different market conditions (Ketchen, Hult, & Slater, 2007; Morgan, Vorhies, & Mason, 2009). Drawing upon the resource-based view (RBV) of the firm and contingency theory, we propose a model that addresses this limitation by investigating the way in which MO leads to superior NP performance for products that enter the market at different times. In particular, the study examines the moderating effect of order of market entry on the mediated relationship between MO and NP

performance via product quality and innovation speed. The choice of product quality and innovation speed as mediating variables is based on research on order of market entry that regards these variables as important components of pioneers' and followers' NPD strategies (Urban, Carter, Gaskin, & Mucha, 1986; Vakratsas, Rao, & Kalyanaram, 2003).

MO has been shown to increase NP performance through higher product quality (Paladino, 2008) and greater innovation speed (Carbonell & Rodríguez, 2010). However, these routes may involve potential trade-offs. For instance, improving product quality may decrease the speed of development (Crawford, 1992). Therefore, an important question arises: should pioneers (followers) use MO to enhance product quality, or should they use it to speed up NPD? The extant research does not clearly answer this question. For example, whereas some studies describe product quality as being particularly relevant to the success of first-to-market products (Robinson & Fornell, 1985), the question remains how a firm that is slow at developing new products can potentially be a first mover (Kessler & Bierly, 2002). Similarly, there is no convincing evidence on whether followers' primary performance goal during the NPD process should be speed to market or product quality (Vakratsas et al., 2003). The current study attempts to shed some light on this dilemma. Drawing upon a contingent approach to the RBV, we argue that for a particular NP, whether to focus MO on the achievement of superior product quality or greater innovation speed will be contingent on the assumed order of market entry. The effectiveness of MO will be dependent on the use of MO to implement the NPD strategy that is best suited for the specific order of market entry, whether this strategy involves developing high-quality products or accelerating NPD. To date, no prior studies have examined these linkages.

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The study represents an important contribution to the literature in two respects. First, because it combines two major research streams (i.e., the literatures on order of market entry and MO), the study provides new insights into the role of MO in enabling firms to execute NPD strategies that are best suited for a particular order of market entry. The key results of our study indicate that MO can improve the performance of first-to-market products and late entrants by facilitating the development of high-quality products, whereas it can improve the performance of early entrants by increasing innovation speed. Second, the study represents a departure from existing marketing research, which has mainly concentrated on explaining the main effects of order of entry (for exceptions, see Bowman & Gatignon, 1996; Homburg, Bornemann, & Totzek, 2009).

## 2. Theoretical framework

The traditional RBV of the firm considers resource heterogeneity among firms as fundamental to explaining firm performance (Barney, 1991). This view has been criticized for its inability to explain how resources are developed and deployed to achieve competitive advantage and its failure to consider the impact of market environments (Morgan et al., 2009). However, over time, the RBV has moved beyond its focus on the direct resource-performance link and has evolved into a contingency theory of organizations (Ketchen et al., 2007). Consistent with this recent contingent approach to the RBV, Ketchen et al. (2007: 962) state that “strategic resources only have *potential* value and that realizing this potential value requires alignment with other important organizational elements.” Further research indicates that although possessing strategically valuable resources may be beneficial, firms must be able to deploy these resources in ways that match the market conditions they face (Morgan et al., 2009). Building on the contingent approach to the RBV, we propose a moderated-mediation model of the relationship between MO and NP performance. The model that we depict in Fig. 1 illustrates the thesis of this study: that order of market entry moderates the mediated relationship between MO and NP performance via innovation speed and product quality.

MO has been defined as a rare, valuable and inimitable firm-level resource that can generate competitive advantage and lead to superior NP performance (Day, 1994; Hunt & Morgan, 1995; Menguc & Auh, 2006). However, the explication of the routes through which MO influences performance is vital to understand how MO works and how it may be beneficial as a firm's strategic capability (Ketchen et al., 2007; Kirca, Jayachandran, & Bearden, 2005). Focusing on the mediators of the MO–NP relationship, extant research suggests that innovation speed and product quality are important mechanisms through which a firm's MO enhances the success of its NPs. Hunt and Morgan (1995), Paladino (2008) and Pelham and Wilson (1996) suggest that firms with superior MO develop

high-quality products because they have a greater understanding of customers' expressed desires and latent needs, competitors' capabilities and strategies and the broader market environment. Just as importantly, MO enables NPD teams to act more quickly on market-related information (Lynn, Akgün, & Keskin, 2003). It also facilitates communication and cooperation and increases goal congruence among the parties involved in the development process (Dougherty, 1992; Moorman, 1995), which has been associated with faster NPD (Gupta, Raj, & Wilemon, 1986; Zirger & Hartley, 1994). A number of studies report a positive association between product quality and NP performance (Henard & Szymanski, 2001; Sethi, 2000) and between innovation speed and NP performance (Ali, Krapfel, & Labahn, 1995; Carbonell & Rodríguez, 2006; Cooper & Kleinschmidt, 1994).

Researchers have recognized the external environment as one of the key constructs for understanding organization behavior and performance in that “the appropriateness of different strategies depends on the competitive settings of businesses” (Prescott, 1986). In our study, we propose that for a particular NP project, whether MO facilitates NP performance via the achievement of superior product quality or greater innovation speed will be contingent on the assumed order of market entry. In other words, as shown in Fig. 1, the order of market entry is expected to moderate the mediated relationship between MO and NP performance. The basic argument underlying our model is that different types of entrants face different market conditions and therefore should prioritize different NPD objectives (i.e., product quality vs. innovation speed). Building on this notion, we posit that for MO to lead to successful NP performance, firms need to be able to deploy their MO in ways that match the expected order of market entry.

In this study, MO is defined as a set of organizational behaviors and processes related to (1) the generation of market intelligence, (2) the dissemination of such information and (3) the responsiveness to that intelligence across departments (Kohli & Jaworski, 1990). NP performance refers to NP outcomes in terms of sales, market share and profitability (Cooper & Kleinschmidt, 1994; Moorman & Miner, 1997). Product quality refers to the overall superiority or excellence of a product (Zeithaml, 1988). Innovation speed, also called NPD speed and speed to market, represents how quickly an idea moves from conception to a product in the marketplace, measuring a team's ability to rapidly develop and launch a NP (Chen, Reilly, & Lynn, 2005).

Three categories of NPs are identified according to the order in which they enter the market: first-to-market products, early entrants and late entrants. Many of the studies on first-mover advantages and disadvantages have not traditionally distinguished between the true pioneer in the market and other early entrants (a notable exception is Robinson, Fornell, & Sullivan, 1992). However, this distinction is critical because a product that enters the market as one of the pioneers (i.e., an early entrant product) faces different challenges and market conditions than a true pioneer does. For example, the true pioneer has no direct competition, but it competes with other product forms already present in the same product category and with substitute product categories that satisfy the same market need and faces the threat of potential entrants. In contrast, early entrants face competition from the one or few products already present in the market. Similarly, an early entrant enters the market at the earliest stages of the product life cycle, before the sales of the NP take off, whereas the late entrant follows the pioneer(s) and enters a growing or mature market (i.e., sales of the NP have already taken off) (Agarwal & Bayus, 2004; Robinson et al., 1992).

## 3. Hypothesis development

Research by Robinson (1988) and Robinson and Fornell (1985) shows that successful pioneering or first-mover firms in both consumer and business markets tend to offer high-quality products. Developing a high-quality product is likely to reduce customers' resistance to change from older product forms to the new offering (Guiltingan, 1999). Product

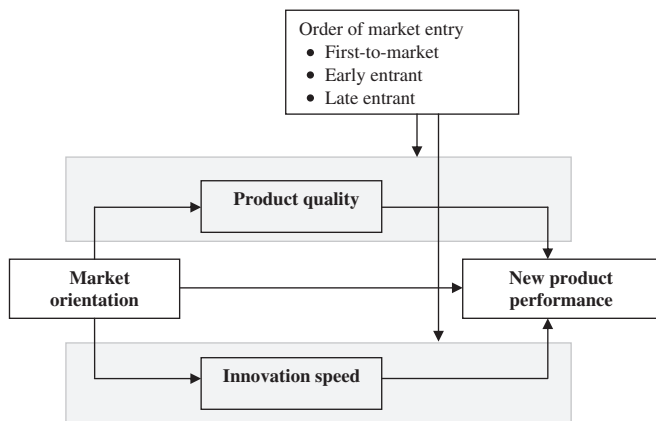


Fig. 1. Conceptual model.

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