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The role of service innovation in the market orientation—new service performance linkage

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ABSTRACT

While most academics generally agree that innovation plays the mediating role between market orientation and new product/service performance, relatively little research has examined how each component of market orientation contributes to new service performance through various types of service innovation. Based on a survey of 235 managers and taking a component-wise approach, this study finds that customer orientation spurs incremental service innovation while inter-functional coordination spurs radical service innovation, both of which, in turn, enhance new service performance. A surprise finding shows that the impact of competitor orientation on new service performance is fully mediated by radical service innovation. The results of this study should help market oriented managers create and evaluate service innovation.

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1. Introduction

The contribution of market orientation to new product/service performance has been examined by a number of academics (e.g., Agarwal et al., 2003; Manzano et al., 2005; Zhou et al., 2005). However, empirical support for this contribution is still equivocal in service sectors. For example, some academics have found support for a direct contribution (e.g., Van Egeren and O'Connor, 1998; Kumar et al., 1998; Langerak, 2003), while others have failed to find support (e.g., Han et al., 1998; Sargeant and Mohamad, 1999; Caruana et al., 2003). Still others have found evidence of a mediated contribution: innovation (e.g., Matear et al., 2002). That is, market oriented service firms are inclined to produce service innovation first, which in turn leads to new service performance.

While several studies have generally agreed that the market orientation–innovation–performance relationship exists (e.g., Zhou et al., 2005), the relationship between market orientation and new service performance seems far from fully explained (Zhou et al., 2009). First, researchers have suggested that customer orientation, competitor orientation and inter-functional coordination, components of market orientation, have differential implications on firm performance. For example, some researchers (e.g., Han et al., 1998; Deshpande and Farley, 1998; Chao et al., 2007) indicate that customer orientation is perhaps the most fundamental element of

market orientation to business performance, while others (e.g., Dawes, 2000; Noble et al., 2002; Sin et al., 2005) find competitor orientation to be “detrimental to profitability.” Still others (e.g., Gray et al., 1998; Dawes, 2000) find that the impact of inter-functional coordination on business performance has mixed results. Thus, clarifying why customer orientation, competitor orientation, and inter-functional coordination differ in their effects on new service performance would appear to be useful.

Second, products with a higher degree of innovation are approved to have higher sales and financial performance, leading to greater overall business performance (Gatignon and Xuereb, 1997; Zhou et al., 2005). However, the very nature of services, having a number of distinguishing features when compared to goods (e.g., co-creation with customers, Vargo and Lusch, 2008), leads to a greater need to establish credibility with customers. As such, service firms could also achieve greater business performance even through less innovative services (Atuahene-Gima, 1995; Berry et al., 2006). In this way, different types of service innovation should be studied in greater depth to see how they mediate the market orientation–innovation–performance relationship. To our knowledge, there have been few, if any, attempts to examine how different types of service innovations play this mediating role in the service context.

Finally, because one of the most notable service characteristics is direct and intense interaction between service providers and customers (Ramani and Kumar, 2008), it is assumed that research on market orientation in the context of service should be more abundant than that in the products sector. However, with notable exceptions of Han et al. (1998) and Matear et al. (2002), relatively few studies have explicitly examined this relationship in the service sector.

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To fill this gap, this study uses a component-wise approach (Li and Calanton, 1998) to examine (1) the degree to which market orientation directly contributes to new service performance and (2) how three components of market orientation contribute to two types of service innovations, and in turn lead to new service performance. By doing so, this study contributes to literature in the following ways. First, this study assesses how market orientation drives service innovation, which is still an unresolved topic (Sin et al., 2005). If the examination of causal effects among the elements of market orientation and their indirect influences on new service performance can contribute to identifying empirical regularities or reconciling inconsistencies in the relationship between market orientation and performance, the level of confidence in market orientation would be advanced theoretically and empirically.

Second, this study provides new insights by dismantling market orientation and service innovation to more deeply understand the effects of underlying market orientation components on two types of service innovations, a focus that has received little empirical assessment (Tsotsou, 2010) and that addresses Han et al. (1998). Specifically, Han et al. (1998) use a component-wise approach to examine the effects of three market orientation components on two organizational innovations, which lead to organizational performance. However, the interplay between market orientation and innovation is not yet well-understood (Han et al., 1998; Noble et al., 2002) and this is particularly true in explaining service innovation (Tsotsou, 2010). As indicated by Han et al. (1998, p. 41), “formulating an innovation strategy to complement the firm’s market orientation strategy should provide a more coherent and comprehensive road map for organizations to follow.”

Finally, previous studies regarding market orientation and service innovation have focused mainly on a specific sector, such as banking (Han et al., 1998), retailing (Chang and Chen, 1998), hotel (Zhou et al., 2009), or insurance sectors (Lado and Maydeu-Olivares, 2001). This study covers multiple service sectors.

The remainder of this article is structured as follows. This study begins by reviewing two types of service innovations, incremental and radical service innovation, and the market orientation–innovation–performance relationship. Based on this review, research hypotheses are developed. Next, the study’s sample of 235 respondents is described and the relationships among the constructs are assessed. Finally, analyses of field data and the implications of the findings are discussed.

2. Research model and hypotheses

As proposed by Li and Calanton (1998), each component of market orientation has its own locus of interest and each involves

different cognitive activities. Thus, like other similar studies (e.g., Gatignon and Xuereb, 1997; Han et al., 1998; Lukas and Ferrell, 2000), this study uses a component-wise approach to examine the links between market orientation, service innovation, and new service performance. Fig. 1 provides an overview of the relationships to be tested.

2.1. Service innovation: incremental and radical service innovations

The degree of service innovation ranges from a totally new or discontinuous innovation to a service involving a minor adaptation or improvement of an incremental nature (Griffin, 1997; Avlonitis et al., 2001; Garcia and Calantone, 2002). Several service innovation types have been proposed (Gadrey et al., 1995; Debackere et al., 1998; Avlonitis et al., 2001; Berry et al., 2006; Paswan et al., 2009), but because this study is concerned with the greatest and least degree of service innovation, we differentiated service innovation into incremental and radical innovation. Such a differentiation has been frequently used in similar innovation research (Olsen and Sallis, 2006; Min et al., 2006; Song and Thieme, 2009).

Incremental service innovation is related to customer-led strategies that focus on manifest needs (Connor, 1999; Slater and Narver, 1999) and is posited to be the most common form of innovation (Bell et al., 2002; Slater and Narver, 1998,1999). In addition, the development of incremental service innovation tends to limit the range of potential service innovation, because it relies on customers’ current view of the service market (Becheikh et al., 2006). On the other hand, radical service innovation is defined as fundamental changes in new services that represent revolutionary changes in service benefits (Berry et al., 2006; Hertog, 2000; Nijssen et al., 2005). To sum up, incremental service innovation describes a new value creation through the incremental addition of existing values, while radical service innovation creates brand new values through innovative concepts.

2.2. Service innovation and new service performance

The innovation literature has indicated that a formidable relationship exists between service innovation and new service performance (e.g., Song et al., 2009; Crawford and Di Benedetto, 2007; Avlonitis et al., 2001). It is argued that service innovation is not an end unto itself. Rather, its value is in the facilitation and generation of outcomes that benefit new service performance regardless of financial rewards or market positions (Wind and Vijay, 1997; Benner and Tushman, 2003). Specifically, the way for service innovation to contribute to new service performance is through new benefits to existing customers, creation of new markets through an incremental addition of existing service values, or radical creation of brand new service values. In other words, service innovation, regardless of whether it is incremental

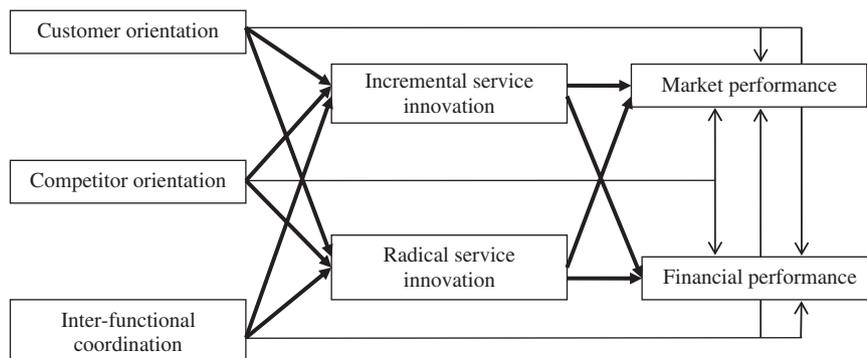


Fig. 1. Research framework.

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