

# Antecedents to Customer Involvement in Product Development: Comparing US and Chinese Firms

XIAOHUA LIN, *University of Windsor, Canada*

RICHARD GERMAIN, *University of Louisville, USA*

The study examines the effects of environmental context (technological turbulence), industrial context (production technology routineness and product complexity), and organizational structure (formalization and decentralization) on customer involvement in product development and compares US and Chinese State-owned enterprise (SOE) manufacturers. The results show that customer involvement in product development is positively predicted by product complexity and formalization, and inversely predicted by decentralization. The results also show that the effect of formalization is stronger in China. These findings have implications for implementing customer orientation in manufacturing firms and for Chinese SOEs in transition toward market-driven economic entities.

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## Introduction

As a philosophical or cultural foundation of modern Western management practice, a market orientation directs the firm toward the marketplace in formulating and implementing strategies (Webster, 1988; Deshpande and Farley, 1998). Although additional market forces such as competition belong

to the domain of a market-driven business philosophy, a customer focus has been consistently recognized as the cornerstone of a market orientation (Ruekert, 1992; Sheth *et al.*, 2000). A customer orientation enables a firm to deliver superior value to customers and facilitates continuous superior marketplace performance (Webster, 1988; Narver and Slater, 1990). Although the notion of customer orientation has a long history, prior literature has been criticized for inattention to: (1) activities or behaviors representing a customer orientation; and (2) antecedent contextual factors (Narver and Slater, 1990; Kohli and Jaworski, 1990). The current study contributes to this literature by examining customer involvement in product development, a construct that captures one specific aspect of customer-oriented behaviors, and by examining crucial contextual conditions that facilitate customer orientation in terms of customer involvement.

To accomplish the above objective, the study takes a comparative approach by contrasting US firms against ones from China, an emerging market experiencing dramatic transition. Customer orientation has been advocated as a vital stepping-stone for transforming firms in transition economies and its adoption also has practical implications for Western businesses entering transitional economies (Golden *et al.*, 1995; Hooley *et al.*, 2000; Akimova, 2000; Sin *et al.*, 2000; Deshpande and Farley, 2000; Pyke *et al.*, 2000). Theoretically, this comparative approach offers a unique venue for advancing theory by scrutinizing

some of the conceptualizations that are being established in more developed Western economies. In their 'Universal Market-Focused Model,' *Deshpande et al. (1997)* propose that successful firms share similar management practices including a market orientation. Since then, a number of studies on emerging markets have shown the positive performance effect of a market orientation including a customer orientation (*Deshpande and Farley, 2000*). In our study, we believe that a promising aspect of researching firms in emerging markets may be the association between a firm's context (environmental, industrial, and organizational) and level of customer orientation. Existing comparative studies have been largely limited to firms in developed countries, suggesting a need for contextual comparability (*Selnes et al., 1996*). However, comparing firms facing vastly different contexts offers another, complementary perspective to ascertain and verify the context – customer orientation links. Thus far, such links have not been conclusively established in the literature that largely builds upon experiences with Western firms.

As shown in our framework (see *Figure 1*), we examine the effects of the firm's environmental and industrial context and of organizational structure on customer involvement in product development. In comparing China with the US, we propose a development stage effect that concerns a country's existing level of customer orientation and associated environmental and organizational dynamism. In the US, some level of customer inclusion has been a basic element of business training and practice and frequent change in technological and organizational contexts has long been dealt with by managers. As a result, contexts, although they may have some effect, are less likely to create large shifts in customer involvement. In contrast, stagnation in the technological environment and in organizational structure and ignorance of customer needs characterized pre-reform Chinese State-owned enterprises (SOEs). Consequently, emerging technological and organizational dynamics should bring about more dramatic responses in Chinese SOEs as they are forced into the market-oriented transformation. On the other hand, there is no such development effect in terms of indus-

trial context when comparing Chinese SOEs and US firms. Like their US counterparts in the manufacturing sectors, Chinese SOEs have long been able to adjust business practice to production and product mandates.

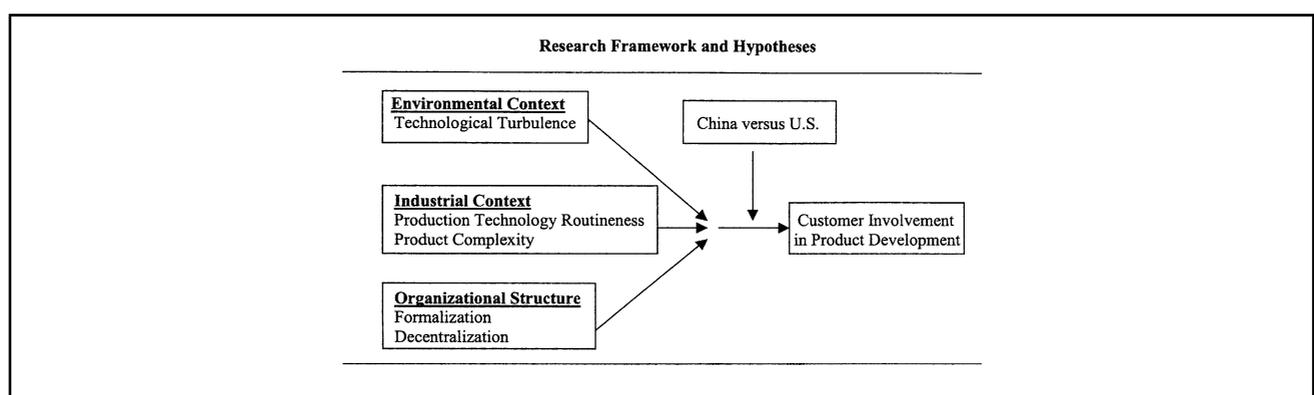
The rest of the paper is organized as follows: based on a review of Western literature and China's unique situation, the first section develops hypotheses for US firms and Chinese SOEs; then, research methods are presented, followed by results, theoretical and managerial implications, and limitations.

## Conceptualizations and Hypotheses

Championing resurgent interest in market orientation, *Narver and Slater (1990, p. 20)* argued that, 'a business that increases its market orientation will improve its market performance.' Since a market ultimately has to be defined by its customers or customer needs, the essence or key ingredient of market orientation is a customer orientation (*Atuahene-Gima, 1995*). From an implementation perspective (*Kohli and Jaworski, 1990*), a customer-oriented firm devotes major efforts to obtain and utilize customer information, develop a strategic plan based on such information, and implement the plan to respond to customer needs (*Ruekert, 1992*). In this research, we consider one facet of customer orientation that we label customer involvement in product development. A firm can operationalize customer involvement in product development by jointly designing products with customers, attending to customer signals on product quality requirements, researching product features and varieties desired by customers, and implementing knowledge on how customers use products, to name a few. Customer involvement has proved to be a successful strategy and tactic in new product development (*Brockhoff, 2003*).

### Chinese State-Owned Enterprises

SOEs were the dominant manufacturing form in China before the government launched industrial



**Figure 1** Research Framework and Hypotheses.

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