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Customer orientation and innovativeness: Differing roles in New and Old Europe

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Abstract

Burgess and Steenkamp [Burgess, S. M., & Steenkamp, J. (2006). Marketing renaissance: How research in emerging markets advances marketing science and practice. *International Journal of Research in Marketing, 23*(4), 337−356.] have pointed out that marketing knowledge derives almost exclusively from research conducted in high income, industrialized countries. However, the generalizability of marketing knowledge should also be tested in emerging markets. We demonstrate that returns on customer orientation and organizational innovativeness play out differently in New versus Old Europe. Contrary to previous research, we find that customer focus is at least as important in New Europe as in our Old European country, while organizational innovativeness appears more important in New Europe to drive both customer service and financial performance.

Keywords: Emerging markets; Customer orientation; Organizational innovativeness; Differentiation; Sustainable competitive advantage

1. Introduction

Burgess and Steenkamp (2006) point out that, while the marketing discipline has made substantial progress in addressing scientific and managerial problems over the past few decades, the knowledge derived is almost exclusively based on research conducted in high income industrialized economies. There has been relatively little research conducted in emerging markets where the economic, social and cultural context of business may be very different. They therefore question the generalizability of findings outside the context of highly industrialized economies. Two cornerstones of marketing theory, the impacts of market orientation and innovation on performance, are prime examples where the bulk of the research conducted to date has been performed in highly industrialized countries. This paper seeks to contribute to the field by testing these relationships simultaneously in the context of a highly industrialized country in Old Europe and two emerging markets in New Europe.

For several decades, customer focus has been described as the cornerstone of marketing (Levitt, 1960) and as the major component of market orientation (Deshpandé & Farley, 1998). The predictive power of market orientation on business performance has been the subject of considerable empirical research. Although this relationship has been challenged (Langerak, 2003), meta-analyses have found the effect of market orientation on business performance to be positive and significant, but relatively weak as market orientation only explains about 12% of the variance in business performance (Cano, Carrillat, & Jaramillo, 2004). Furthermore, recent meta-analyses have also shown market orientation to have a stronger effect in western economies vs. Eastern European economies (Ellis, 2006; Kirca, Jayachandran, & Bearden, 2005). The surprise lies in the fact that Eastern European countries that form the New Europe, have traditionally experienced lower levels of service, which suggests that customers should appreciate the increased attention they receive from more customer-oriented companies. This customer appreciation should translate to superior firm performance, yet this is not reflected in these meta-analyses. Moreover, the majority of market orientation studies have

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focused on short term financial performance measures, and have paid little attention to the firm's ability to sustain a competitive advantage in the longer term (Kirca et al., 2005). Moreover, there has been relatively little research on sustainable competitive advantage-enhancing practices in emerging Eastern European economies (Hooley et al., 2000).

Conceptually, it seems reasonable to believe that firms in emerging economies have more to benefit from organizational innovativeness as they have a need to "catch up" in terms of processes that will enable them to compete more effectively in the global market-based economy. This suggests that innovation in working methods and processes plays a significant role, as it did for Japan after WW2, which was an emerging economy at the time. In a similar vein, Gaal (2004) reports on process innovation in agricultural marketing in Hungary, which has substantially improved performance in international marketing. For example, firms were able to market 'Hungarian' wine more effectively by promoting differentiation of a wine's country of origin, leading to a doubling of Hungarian wine exports to the UK (1993 to 2004). This differentiation enabled them to avoid having to compete on price. Gorenje, the leading Slovenian manufacturer and marketer of home appliances, has set its goal to be the most innovative and design-minded appliance maker in the world within 5years (Slovene Press Agency, 2005). This is being achieved in part through innovations in online marketing, and boosting its image in foreign markets. One would therefore expect that the ability of Eastern European firms to reap the benefits of customer orientation would depend more heavily on their innovativeness. Thus, firms from these countries can compete by overcoming established practices that do not focus on the customer. Therefore, it is important to examine the interplay between customer orientation and organizational innovativeness across New and Old Europe.

Firms have been described as facing a dilemma between serving customers for short term financial profits or for enhancing long term position by creating customers through the development of unique and differentiated products (Berthon, Hulbert, & Pitt, 1999). While the former is an act of customer focus the latter is a result of organizational innovativeness. Given that serving the customer would involve the delivery of superior levels of customer service performance, the aforementioned logic also implies that customer service performance and product differentiation, which we refer to as the *service–product offering*, mediate the relationship between customer focus and organizational innovativeness with respect to performance. Since customer orientation and organizational innovativeness may have a different effect on organizational performance, it is important to examine the effect both on short term financial performance and on longer term sustainable competitive advantage.

This paper seeks to contribute to this discussion in a number of ways. First, based on the call of Burgess and Steenkamp (2006) to advance marketing science via research in emerging markets, we examine the integration of customer orientation and organizational innovativeness in three different contexts: Hungary, Slovenia and the UK. The emerging New European markets present us with a natural laboratory for testing theories developed in industrialized countries and discovering the underlying mechanisms in these markets (Burgess & Steenkamp, 2006). Specifically, we hypothesize organizational innovativeness will increasingly act as an enabler for customer orientation practices in the emerging New European markets. Second, it contributes by further examining the emerging literature that has raised the need to integrate market orientation measures and innovativeness (Liu, Luo, & Shi, 2002; Menguc & Auh, 2006). The basic premise for this integration is that while customer orientation leads a company to allocate resources to current customers, organizational innovativeness leads to a proactive reconfiguration of resources in order to address future customers and their needs. Third, we examine the mediating role of the service–product offering with organizational performance to further explore how firms both serve and create customers. Fourth, we consider firm performance over different time frames. We hypothesize that better served customers lead to short term financial performance, while the creation of differentiated products is more directly linked with long term sustainable competitive advantage. The former performance measure is most commonly used in marketing studies, while the latter is most commonly used in the strategic management literature, offering a possible explanation for the different emphases on market orientation and innovation in these literatures.

We demonstrate that differences in the effect of customer orientation and organizational innovativeness on service performance are moderated by the national context. Customer orientation also proved to be a source of long term, sustainable competitive advantage for our New European countries, but this was not the case for our Old European economy. We also find organizational innovativeness to have a stronger effect on customer service and financial performance in our New European economies. However, we find customer orientation's total contribution to short term financial performance in our New European economies to be at similar levels with our Old European economy. This is contrary to previous findings that present customer orientation as having a smaller effect in Eastern European or emerging markets in general (Ellis, 2006; Kirca et al., 2005).

The paper is organized as follows. First we present our theoretical background, conceptual framework and methodology. We then introduce an empirical study designed and conducted in order to test our conceptual model. Results are then presented and implications are discussed.

2. Theoretical background

Based on earlier defined market orientation constructs, numerous studies in the United States (Deshpandé, Farley, & Webster, 1993; Jaworski & Kohli, 1993; Slater & Narver, 2000), Europe (Cadogan & Diamantopoulos, 1995; Greenley, 1995; Hooley et al., 2000) and other parts of the world (Gray, Matear, Boshoff, & Matheson, 1999) have taken place. As stated earlier, while market orientation scales have been generally linked to firm performance, a number of studies have found mixed results between market orientation and firm