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Firm survival through a crisis: The influence of market orientation, marketing innovation and business strategy☆

Vikash Naidoo *

Deakin University and Enterprise Connect, Australia

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ABSTRACT

As an outcome of the economic crisis, the global manufacturing sector is collapsing. Focusing on Chinese manufacturing small and medium enterprises (SMEs), this study investigates whether marketing innovation, defined as improvements in the marketing mix, can assist in withstanding the challenges of operating under the current economic conditions. A conceptual model linking market orientation, marketing innovation, competitive advantage and firm survival is tested using structural equation modelling. Three key findings are derived. First, the examined Chinese manufacturing SMEs had a greater perceived likelihood of survival had they developed and sustained a competitive advantage. Second, marketing innovation assisted in developing and sustaining competitive advantages based on differentiation and cost leadership strategies. Third, marketing innovation capabilities improved when the examined manufacturing SMEs were competitor oriented and had good inter-functional capabilities.

1. Introduction

Between late 2007 and the second quarter of 2009, the global economy slid deeper and deeper in the midst of an economic crisis with a sluggish recovery in the third quarter of 2009. Worldwide, this slide has led to a collapse of the manufacturing sector. From redundancies, to restructuring for optimization and efficiencies, to bankruptcy, the popular business press is full of accounts of how manufacturing firms worldwide are grappling with the challenges of operating under recessionary conditions. The result is an industrial crisis adding to the economic crisis. The lack of global demand – not just for manufacturing outputs, but for everything – is largely to be blamed for the current state of affairs (The Economist, 2009a).

Amidst this doom and gloom picture, the frailty of manufacturers is, however, not universal. There are some companies which are faring much better than their manufacturing counterparts (The Economist, 2009b). There is no doubt that these companies are also suffering from the challenges of the current economic landscape, but their turmoil tend to be more transient, having a greater ability to withstand the global economic crisis.

The literature on economic crises highlights the need for better management (e.g. Champion, 1999; Goad, 1999) as a survival mechanism. From a resource-based perspective, such better management represents organizational resources and capabilities that firms can use to manage economic conditions and perform (Barney, 1991; Day, 1994; Dickson, 1992; Grewal & Tansuhaj, 2001). The ability to innovate has recently gained in prominence as one such dynamic capability that distinguishes firms which outperform their counterparts (Danneels, 2002; Hamel, 2000; O'Connor & Rice, 2001). The broad premise of this literature suggests that the ability to innovate is a "key mechanism for organizational growth and renewal" (Lawson & Samson, 2001: 379). In times of environmental turbulences such as during an economic crisis, the need for innovation has been recognized to withstand the gales of creative destruction (Danneels, 2002; Schumpeter, 1950).

This study, focusing specifically on manufacturing small and medium enterprises (SMEs), seeks to examine a possible model of marketing innovation, defined as improvements in product design, placement, promotion or pricing (Deshpandé, Farley, & Webster, 1993; Hurley & Hult, 1998; OECD, 2005), as a possible contributing factor to firm survival in an economic crisis. Marketing innovation often provides quick fix innovative solutions emphasising low-risk product modifications, extensions and design changes (Bennett & Cooper, 1979; 1981). For cash-strapped manufacturers[1] operating in the grips of the current economic crisis (often, but not always, SMEs), marketing innovation can present an attractive strategy (given its relative affordability) to attempt reversing the flow of declining sales. The logic of marketing innovation emphasises sales growth by shifting consumer demand from elastic to more inelastic market segments through the delivery of better value (actual or

☆ The views expressed in this paper are those of the author and do not reflect the official position of the Australian Federal Government or Deakin University.

* Enterprise Connect, c/o Deakin Management Centre, Deakin University, Geelong Campus at Waurn Ponds, Victoria 3217, Australia. Tel.: +61 3 5227 3446; fax: +61 3 5227 3175.
E-mail address: viknaidoo@gmail.com.

[1] Emphasis is placed on cash-strapped manufacturers to control for financial resources being a determinant of firm survival.

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perceived) to the consumer (Bennett & Cooper, 1979, 1981; Hurley & Hult, 1998). In theory, such logic holds weight in a business environment where global demand for manufactured goods has rapidly declined and manufacturers need to hastily reinvent the demand functions of their products if they are to ensure their short to medium-term survival in the current economic landscape. Such an argument has been postulated by many business commentators in the popular business press (e.g. The Economist, 2009b). In practice, however, there is a dearth of empirical evidence which proves the influence of marketing innovation on firm survival during an economic crisis. This study attempts to bridge this gap by providing up-to-date empirical evidence.

This article begins with an overview of the current literature and then develops the conceptual framework and hypotheses. A discussion of research methodology follows. Using data from 184 export-oriented Chinese SMEs, this study uses confirmatory factor analysis and structural equation modelling to test the conceptual model empirically. The article concludes with a discussion of the observed findings.

2. Literature review

Innovation, at an aggregate level, represents the successful exploitation of ideas that are new to an adopting organization, into profitable products, processes and/or services (Damanpour, 1992; Johannessen, Olsen, & Lumpkin, 2001). Therefore, given the focus on newness, innovation incorporates a certain degree of uncertainty and risk-taking. With this degree of uncertainty and risk-taking not the same across different innovative activities, scholars have developed taxonomies in their study of organizational innovation. From architectural, modular, improving and evolutionary innovations, to radical, incremental, really new, discontinuous and imitative innovations, the list of innovation taxonomies is broad (Garcia & Calantone, 2002). Of these taxonomies, the dual categorisation of innovation as either radical or incremental is among the most embedded in the literature (Chandy & Tellis, 2000; Henderson & Clark, 1990; Myers & Tucker, 1989).

Radical innovation refers to major changes in technology/knowledge that stem from the discovery of something new. Incremental innovations, on the other hand, are major advances to an established technology/knowledge (Garcia & Calantone, 2002). In the marketing literature, marketing innovation has been positioned as a type of incremental innovation (Grewal & Tansuhaj, 2001).

In the academic business literature, marketing innovation has been the subject of sparse scrutiny (Augusto & Coelho, 2009). It is, however, closely aligned to the better researched construct of market orientation[2] although the relationship between market orientation and innovation is not yet fully explained (Augusto & Coelho, 2009, Lukas & Ferrell, 2000). Market orientation is a central focus of modern marketing concepts and has received wide attention from both academic scholars and practitioners (Augusto & Coelho, 2009; Beverland & Lindgreen, 2007; Kaynak & Kara, 2004; Sanzo, Santos, Vazquez, & Alvarez, 2003). It is, however, still subject to varying definition and requires further investigation, especially in international contexts (Dalgic, 1994; Deshpandé & Farley, 2004; Racela, Chaikittisilpa, & Thoumrungroje, 2007). Generally, market orientation is defined as understanding and satisfying customers and other relevant stakeholders (Day, 1994; Narver & Slater, 1990). It is, in other words, “the implementation of the marketing concept” (Kohli & Jaworski, 1990:1). Market orientation, therefore, focuses the organization's ability to be responsive to customers and other relevant stakeholders (e.g. competitors and employees) in order to be profitable. With a primary objective of innovation being the development of new or modified products/processes aimed at improving organizational performance and with superior performance inherently dependent on understanding and satisfying customer needs better than one's competitors, market orientation and innovation are intrinsically linked constructs (Augusto & Coelho, 2009; Hauser, Tellis, & Griffin, 2006).

Kohli and Jaworski (1990), Narver and Slater (1990), Jaworski and Kohli (1993), and Kohli, Jaworski and Kumar (1993) are four seminal studies on market orientation. These four articles are the research foundations of a large body of literature that can be grouped in two major strands; a behavioural and a cultural perspective. The former perspective views market orientation as a behavioural response to the competitive operational dynamics that an organization faces. The cultural perspective, on the other hand, defines market orientation as “the organization culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and thus superior performance for the business” (Narver & Slater, 1990:21). In this paper, the cultural conceptualisation of market orientation is adopted on the basis that culture has the potential to influence behaviours (Raap, Schillewaert, & Hao, 2008). Similar to previous studies, market orientation is, therefore, defined in terms of an organization's customer orientation, competitor orientation and its inter-functional coordination (e.g. Augusto & Coelho, 2009; Han, Kim, & Srivastava, 1998; Lukas & Ferrell, 2000).

The basic hypothesis of the market orientation literature attributes a positive relationship between the market orientation construct and performance. Although it is worth noting that not all studies confirm the positive outcomes of being market oriented (e.g. Diamantopoulos & Hart, 1993; Harris, 2001), the aggregate conclusion attributes a positive relationship between market orientation and organizational performance.

Most studies examining market orientation have investigated a direct relationship with performance. However, a few others have inferred innovation as a moderating variable between market orientation and performance (e.g. Deshpandé et al., 1993; Hurley & Hult, 1998; Jaworski & Kohli, 1996). These studies conceptualise innovation as the actual mechanism that transforms market orientation into superior performance. This paper extends this debate by suggesting that the link between innovation and performance is mediated by the ability of the firm to develop and sustain a competitive advantage. Competitive advantage, for the purpose of this study, is defined as “a value creating strategy not simultaneously being implemented by any current or potential competitors” (Barney, 2000: 206). A firm, thus, attains a sustainable competitive advantage when the benefits of its value-adding strategy are not competed away by the replication efforts of its competitors (Barney, 2000). The framework adopted in this study posits three main links: (i) in order to exhibit marketing innovation capabilities, a firm needs to adopt a market orientation approach (ii) marketing innovation capabilities help to develop and sustain a competitive advantage and (iii) a competitive advantage allows a firm to better perform and survive in an economic crisis. This theoretical position constitutes the point of departure of this paper and is represented in Fig. 1. Each construct in the model is elaborated in the next section. In the interest of space, the antecedents of market orientation are not addressed in this study. Several factors influencing market orientation have been examined in the current academic business literature. These include top management teams, risk aversion, internal operational dynamics among others (Jaworski & Kohli, 1993). Readers interested in this literature should refer to Kirca, Jayachandran, and Bearden (2005) for a recent review.

3. Hypotheses development

3.1. Market orientation–marketing innovation link

As previously highlighted, most of the literature on market orientation demonstrates a positive and direct relationship with performance (e.g. Narver & Slater, 1990; Ruekert, 1992; Slater & Narver, 1994). Day (1994) for example, outlines how market orientation

[2] Subtle differences have emerged in the literature regarding market orientation and marketing orientation. The latter concerns the implementation of a customer focused philosophy while market orientation widens the focus to consider both customers and competitors (Shergill & Nargundkar, 2005). The focus of the current article is on market orientation.