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Customer orientation, innovation competencies, and firm performance: A proposed conceptual model

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Abstract

Many firms invest substantial resources to build innovation competencies. Firms exist to satisfy the needs of their target markets, and as such, building innovation competencies requires a strong set of organizational knowledge, abilities, and motivations to ensure that innovation activities are geared towards serving market needs and organizational goals. This paper presents an interdisciplinary view integrating literature from the disciplines of marketing, innovation, and organization studies and discusses the valuable role that a customer orientation may play in the development of innovation competencies and subsequent organizational outcomes. A customer orientation has often been criticized as constraining certain innovation processes. Nevertheless, since innovation is regarded as a knowledge-based capability, this paper posits that the execution of market-sensing, customer-relating, and customer-response capabilities lend to, rather than inhibit, innovation competencies. In describing innovation, the view taken here is on two distinct but interrelated concepts, namely creativity (i.e. idea generation and problem solving) and innovation (i.e. the implementation of creative ideas). A conceptual model, based on theoretical foundations from the dynamic capabilities perspective and resource advantage theory, is proposed linking customer orientation, creativity, innovation and firm performance. Theoretical contributions, practical implications, and future research directions are also discussed.

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Keywords: Customer orientation; creativity capability; innovation capability; dynamic capabilities; resource-advantage theory

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1. Introduction

In the coming of the next decade, creativity and innovation capabilities are expected to be crucial factors for firms to build and sustain a competitive advantage, particularly for those firms in fast-changing market environments. Creativity and innovation capabilities can help firms develop unique marketing strategies and other distinctive organizational processes. Furthermore, such capabilities may enable a firm's decision-makers to better cope with social and technological changes (Nelson, D. L. & Quick, J. C., 2006). Considering creativity and innovation as knowledge-based capabilities, these processes help the firm to build its competencies and to learn about new technologies that can be exploited in order to serve market demands.

Building innovation competencies requires a strong set of organizational knowledge, abilities, and motivations to ensure that innovation activities are geared towards serving market needs and organizational goals. As a strategic orientation, a customer orientation provides the firm with the strategic direction to encourage appropriate behaviours that not only focus on creating superior customer value, but also foster a culture that is conducive to building innovation competencies (Day, G. S.. 1994). A customer orientation includes all the activities that are involved in acquiring information about customers in a market and in disseminating the information throughout the organization (Narver, J. C. & Slater, S. F., 1990). Such behaviours are related to gathering market intelligence about the current and future needs of customers and sharing that information throughout the firm (Gatignon, H. & Xuereb, J. M., 1997). Since this customer information must be transformed into knowledge, a customer orientation is linked to learning behaviours and to innovation capabilities (Han, J. K., Namwoon, K. & Srivastava, R. K., 1998).

Prior research shows that strategic orientations do not have a direct influence on firm performance, but rather, their effects are mediated by firm learning behaviours (Zhou, K. Z., Brown, J. R., Dev, C. S. & Agarwal, S., 2007). This paper focuses on the role of a customer orientation on organizational innovation. From a review of relevant innovation literature in marketing and organization studies, a conceptual model that links customer orientation to creativity capability, innovation capability, and firm performance is proposed. The remainder of this paper is as follows. The theoretical underpinnings of the proposed conceptual model are discussed in the next section, followed by a discussion on each of the key concepts of interest and the corresponding propositions. The theoretical and practical contributions, as well as suggestions for future research are presented at the end.

2. Theoretical Underpinnings

To explore the role of customer orientation on firm creativity, innovation, and performance, the conceptual model proposed in this paper is based on the theoretical underpinnings of dynamic capabilities and resource-advantage (R-A) theory. The dynamic capabilities perspective emphasizes the strategic value of specific 'higher-order' resources (i.e. dynamic capabilities) that allow an organization to create, extend, and modify its resource base for the creation and renewal of core competencies and competitive advantage (Helfat, C. E., Finkelstein, S., Mitchell, W., Peteraf, M., Singh, H., Teece, D., Winter, S. G., 2007). Several scholars claim that the organizational processes that are associated with a customer orientation are dynamic capabilities that foster innovation and renewal (Blocker, C. P., Flint, D. J., Myers, M. B. & Slater, S. F., 2011). In broad terms, customer-oriented processes of market sensing, customer relating, and customer-response are aimed at acquiring and transforming customer information into knowledge that can be used so that the firm can respond to customer needs.

Resource-advantage (R-A) theory views the firm as an integrator of resources that are both heterogeneous and imperfectly mobile (Hunt, S. D., 1997). Heterogeneous resources can include a firm's knowledge base about markets and other types of indigenous expertise, while imperfectly mobile resources are regarded as those resources that can be traded but are of more value within the firm. For instance, an organizational competency for transforming market intelligence into new market offers cannot be simply bought in the marketplace. Moreover, according to R-A theory, innovation is an endogenous resource whereby firms innovate to improve their resource position. Thus, in R-A theory, innovation plays a crucial role in gaining competitive advantage and achieving