

THE IMPACT OF INDIVIDUAL COMPONENTS OF MARKET ORIENTATION AND LEARNING ORIENTATION ON INNOVATION AND PERFORMANCE

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ABSTRACT

Market orientation, learning orientation, innovation and performance have individually received much attention and researchers have also examined the relationships among these concepts. Market orientation has been shown in the literature to be correlated with a wide range of business or market performance indicators. Most researchers have used a single aggregated measure of market orientation and an aggregated measure for learning orientation, assuming that each dimension of market orientation and of learning orientation contributes equally to both performance and innovation. This study separates the individual components of market orientation and learning orientation and analyses their relationships to types of innovation and performance.

Literature Review

The relationship between innovation and market orientation has generated considerable debate, for although the literature indicates a positive relationship between innovation and organisational performance and a relationship between market orientation and organisational performance, is not clear how market orientation and innovation together, influence organisational performance, or whether a market orientation is necessary and sufficient to create an optimal environment for innovation [1]. Although market orientation was conceptualised as a unidimensional construct [2] [3], incorporating distinct components, most researchers have used a single aggregated measure of market orientation. Several researchers [4] [5] have explored some dimensions of market orientation and innovation but focused almost exclusively on product innovation. Little is known about the relationship of market orientation on technical innovation or on administrative innovation.

Organisational learning is the principal process by which management innovation occurs [6] as organisational learning facilitates experimentation, or generative learning or creativity, as well as involving the development of new and diverse interpretations of events [7]. Thus a learning orientation functions as an antecedent to an innovation orientation.

Research assessing the relationship between learning orientation and performance [8] [9] [10] has assumed that each dimension of learning orientation contributes equally to performance. However there is no evidence to support this assertion. Research as to how individual components of learning orientation influence performance has been neglected. Furthermore, previous research in learning orientation has operationalised organisational performance either in financial or market components of performance. Non-financial measures have been ignored.

The focus in this paper is on examining which of the three components of learning orientation is critical for a high learning orientation and which has the most effect on market orientation, innovation and organisational performance.

Research Methodology

A questionnaire and personal letter was mailed in June 2000 to the CEO/Managing Director of 1500 small (under 100 employees) and large (over 100 employees) top private and public Australian companies selected from the Dun and Bradshaw Directory. Five industries were selected to provide a range of different stages of technology development: two manufacturing industries: food and medical instruments, and three service industries: communications, hospitality and professional services (engineering and legal). A total of 291 companies responded of which 227 were usable, giving a response rate of 22%.

Results

Open mindedness was positively associated with administrative innovation ($p < .01$) and product innovation ($p < .05$) and had no significant direct or indirect effects on performance measures. Commitment to learning is strongly associated with administrative innovation ($p < .05$) and process innovation ($p < .05$) but it does not appear to be directly or indirectly related to organisational performance. Vision sharing was found to be positively associated with administrative innovation but not to other types of innovation nor to organisational performance. From these results one can conclude that under Australian business conditions respondents felt that open mindedness and commitment to learning contribute to organisational innovation but little contribution was being made by sharing the organisational vision. These results also suggest that the CEO's as the respondents did not see any aspect of organisational learning as contributing to organisational performance be that measured in terms of organisational efficiency, market effectiveness or financial performance. There may be practical utility in future studies to disaggregate the component of organisational learning so that managers can actually see what they have to invest in to increase their innovation.

The results show that customer orientation is positively associated with administrative innovation ($p < .1$); product innovation ($p < .05$), market effectiveness ($p < .05$), operating efficiency ($p < .05$) and financial performance ($p < .05$). thus indicating that customer orientation in its own right is an effective predictor of the different types of innovation and performance measures. Customer orientation is positively associated with administrative innovation ($p < .05$); product innovation ($p < .001$), process innovation ($p < .001$); market effectiveness ($p < .001$), operating efficiency ($p < .001$) and financial performance ($p < .01$). Competitor orientation in its own right is an effective predictor of the different types of innovation and performance measures and under the conditions of this study was far more important than customer orientation. With respect to innovation and organisational performance, inter-functional coordination is the weakest dimension of the market orientation construct. It is only significantly related to administrative innovation.

The findings for the aspects of market orientation show significant differences. On the one hand, it can be concluded that inter-functional coordination is not strongly associated with organisational performance nor is it strongly related to organisational innovation. On the other hand competitor orientation is strongly associated with all types or aspects of innovation and is very strongly and positively associated with all the measures of organisational performance. Customer orientation appears to lie somewhere in the middle of these extremes with strong association with performance but rather weak association with innovation.

Conclusion

From an academic perspective, these results raise a number of issues. First, these findings cannot be dismissed as unusual because we used tried and tested measures, we established their psychometric properties and found all of the measure to exceed a Cronbach α of .80 suggesting

the measures were reliable and valid. Secondly, the sample was derived from several industries making the final sample fairly representative of the population. The results seem to indicate that the levels of aggregation we normally adapt may hide practical issues that may provide managers with practical and pragmatic guidelines. This implies that recommendations based on aggregate measures may call for higher investment than would be needed to achieve the same outcomes by managers. In this respect we urge other researchers to re-examine their findings relative to the level of construct abstraction.

From a managerial perspective these results suggest that, while there is need to invest in developing all these capabilities, investment need not be symmetrical or equivalent. A case can be made for investing more heavily in competitor orientation and customer orientation (from a marketing orientation perspective) and in commitment to learning and open mindedness from an organisational learning perspective.

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