

The Journey from Market Orientation to New Product Performance in the Host Country: A Knowledge and Learning Perspective

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We utilize the resource-based view of the firm (RBV), complemented by organizational learning and knowledge management, in developing a conceptual framework of market orientation-product innovation-new product performance linkages in foreign markets. We argue that there are four resources and capabilities affecting a firm's new product performance in foreign markets: market orientation, host-country knowledge (both explicit and tacit), absorptive capacity (both potential and realized), and product innovation. First, market orientation influences a firm's level of host-country knowledge. Second, potential absorptive capacity has both a moderating effect on the relationship between market orientation and host-country knowledge and a direct effect on host-country knowledge. Third, realized absorptive capacity has a moderating effect on the host-country knowledge-innovation relationship. Finally, product innovation has a direct impact on new product performance, but its influence on new product performance is moderated by the level of turbulence in the host-country market (i.e., market and technology turbulence).

INTRODUCTION

In response to high failure rates of new products, especially in international markets (Bell & Emory, 1971), firms have to spend a great deal of time and resources in confronting the problem (Joshi & Sharma, 2004). Likewise, researchers have devoted considerable efforts in examining the determinants of new product success (e.g., Song & Parry, 1997). They have identified a plethora of key factors influencing new product success, which range from understanding customer preferences (Cooper & Kleinschmidt, 1995; 1996), possessing market knowledge competence (Li & Calantone, 1998), to understanding customer knowledge (Sanchez & Elola, 1991). Researchers have also acknowledged that market orientation is a construct that has similar characteristics as market knowledge competence (e.g., Li & Calantone, 1998) and customer knowledge development (e.g., Joshi & Sharma, 2004). Thus, market orientation will likely have an effect on new product performance.

A firm's market orientation involves continuous monitoring of its customers, competitors, and market environments in order for the firm to develop and market the appropriate goods and services that are valued by its customers (Kohli & Jaworski, 1990; Narver & Slater, 1990). In the last decade, market orientation has become one of the major research streams not only in strategic marketing (Steinman, Dashpande, & Farley, 2000), but also in international business (Hurley & Hult, 1998). For example, Hooley et al. (2003) found that service firms with higher levels of market orientation in transition economies (i.e., Hungary, Poland, and Slovenia) performed better on both financial and market-based criteria. Although researchers have established a positive linkage between market orientation and various performance measures: percentage of new product sales to total sales (Matsuno, Mentzer, & Ozsomer, 2002), success of new services or facilities (Kumar, Subramanian, & Yauger, 1998), many empirical findings on the relationship between market orientation and performance are conflicting in nature (e.g., Jaworski & Kohli, 1993; Kohli & Jaworski, 1990; Narver, Jacobson, & Slater, 1999; Narver & Slater, 1990; Pelham, 2000; Pelham & Wilson, 1996; Slater & Narver, 1994). Hence, scholars have expressed a need for examining the underlying factors influencing the relationship between market orientation and performance (e.g., Noble, Sinha, & Kumar, 2002).

One plausible argument for the conflicting findings is that the market orientation-performance relationship is more complex than previously argued. Indeed, researchers have recently suggested that market orientation has an indirect, instead of a direct, relationship with business performance. Their findings indicated that organizational innovativeness (e.g., Han, Kim, & Srivastava, 1998; Hult & Ketchen, 2001; Im & Workman, 2004; Matear et al., 2002; Noble, Sinha, & Kumar, 2002; Sandvik & Sandvik, 2003) and organizational learning are important mediators of the market orientation-business performance relationship (e.g., Hult & Ketchen, 2001; Noble, Sinha, & Kumar, 2002; Slater & Narver, 1995). Further, researchers (e.g., Hurley & Hult, 1998) have suggested that organizational learning may be viewed as a parallel variable of market orientation. Yet, others (e.g., Darroch & McNaughton, 2003) have described knowledge management as an analogous but a much broader construct to market orientation.

While these researchers have made valuable contributions to extant literature on the market orientation-business performance relationship, their studies were conducted in the domestic context. To better capture the complexity of the market orientation-business performance relationship in foreign markets, we developed a conceptual framework with propositions by including foreign market-related factors in examining such relationship. In addition to these foreign market-related factors, we posit that innovation mediates the relationship between market orientation and new product performance in a foreign market. Using Kohli and Jaworski's (1990) market intelligence perspective of market orientation, we argue that market intelligence generation, dissemination, and responsiveness alone cannot maximize a firm's capability to develop innovative products in an unfamiliar foreign market (i.e., products that are new to foreign customers). Instead, a firm's market orientation, as a firm's resource, needs to be complemented by organizational learning and knowledge management resources and capabilities. In developing our conceptual framework, we utilize the resource-based view of the firm (RBV), complemented by organizational learning and knowledge management as its theoretical bases.

We contribute to the literature on market orientation and new product development in three areas. First, most market orientation-innovation studies in the extant literature focus on the direct, linear relationship between the two constructs (e.g., Atuahene-Gima & Ko, 2001; Han, Kim, & Srivastava, 1998; Hurley & Hult, 1998; Im & Workman, 2004; Lukas & Ferrell, 2000; Sandvik & Sandvik, 2003). Since different organizations have different abilities to "learn" (i.e., acquire, assimilate, transform, and exploit) new knowledge gained from external sources (Tsai, 2001), we propose that the interaction of a firm's absorptive capacity (potential and realized absorptive capacity) and the type of host-country knowledge (explicit and tacit host-country knowledge) mediates the market orientation-innovation relationship in a foreign market.

Second, researchers have frequently used various performance measures (e.g., marketing effectiveness, sales growth, return on investment, return on assets, market share, and profitability) in their studies (e.g., Narver, Jacobson, & Slater, 1999; Narver & Slater, 1990; Pelham, 2000). However, they

have paid scant attention to new product performance when studying the relationship between market orientation and performance (e.g., Frambach, Prabhu, & Verhallen, 2003; Langerak, Hultink, & Robben, 2004). Thus, we contribute to the literature by examining the indirect impact of market orientation on new product performance. Third, most research on market orientation and new product development was conducted in the United States. Cavusgil and Zou (1994) have asserted that the success of a firm in the domestic market does not guarantee its success in foreign markets. Likewise, Perks and Wong (2003, p. 344) have alerted that “although there exists an impressive body of research concerning the management of new product development, the evidence base with respect to international (or global) new product development practices and management is largely in its infancy, and is, at best, fragmented.” In response to the call for studying the applicability of market orientation on new product development in foreign markets (Elliot, 1990; Ennew et al., 1993; Hooley, Lynch, & Shepherd, 1990; Marinov et al., 1993), we examine how foreign market environmental turbulence moderates the innovation-new product performance relationship.

CONCEPTUAL FRAMEWORK AND PROPOSITIONS

The resource-based view (RBV) of the firm has become an influential framework for analyzing the kinds of resources and capabilities that firms should possess to gain sustained competitive advantages (Barney, Wright, & Ketchen, 2001). In order to create sustained competitive advantages, Barney (1991) claimed that the resources and capabilities of a firm should be valuable, rare, imperfectly imitable, and non-substitutable. Moreover, these resources and capabilities can be either tangible or intangible assets, which means assets like managerial skills, organizational processes and routines, and information and knowledge controls can also serve as resources and capabilities.

In the marketing strategy literature, scholars have historically categorized sources of advantages into skills that are the “distinctive capabilities of personnel” and resources that are the “more tangible requirements for advantage” (Day & Wensley, 1988, pp. 2-3). However, Hunt and Morgan (1995) have asserted that market orientation is an intangible entity that could be a resource even though “market orientation is itself not a skill, nor is it more tangible than a skill” (Hunt & Morgan, 1995, p. 11). Although the role of market orientation as a source of sustainable competitive advantage has been recognized in the extant literature (e.g., Hunt & Morgan, 1995), Varadarajan and Jayachandran (1999) have argued that future research should verify the concept both theoretically and empirically. In responding to their call for further examining market orientation as a theoretical concept, we examine market orientation as a resource (Hunt & Morgan, 1995) in influencing new product performance.

Although many research studies have concluded that there exists a direct link between market orientation and performance, researchers have recently suggested that market orientation has an indirect, instead of a direct, relationship with business performance (Guo, 2002; Hult & Ketchen, 2001). The lack of a direct effect of market orientation on performance is consistent with researchers’ assertion that resources and capabilities alone cannot provide a competitive advantage (e.g., Handfield & Nichols, 1999). Thus, market orientation alone, as a resource, cannot account for the performance differentials among firms. Likewise, RBV, as a theoretical argument alone, is limited in explaining how a firm’s market orientation ultimately affects its performance. Indeed, researchers have stressed that a firm’s ability to learn may be the sole source of a long-term competitive advantage (Garvin, 1993; Sinkula, Baker, & Noordewier, 1997; Slater & Narver, 1995; Zahay & Handfield, 2004). Empirically, Vorhies and Morgan (2005) have found that market orientation should be complemented by learning from competitors and peers in order to achieve a sustainable competitive advantage. Hult and Ketchen (2001) also have found that market orientation needs to be complemented by innovativeness and organizational learning to enhance success.

Prior research has highlighted the relationship between market orientation and organizational learning. Since market orientation focuses an organization on continuously collecting customer and competitor information and creating superior customer value by using the collected information, it provides the cultural foundation for organizational learning (Slater & Narver, 1995). However, “the

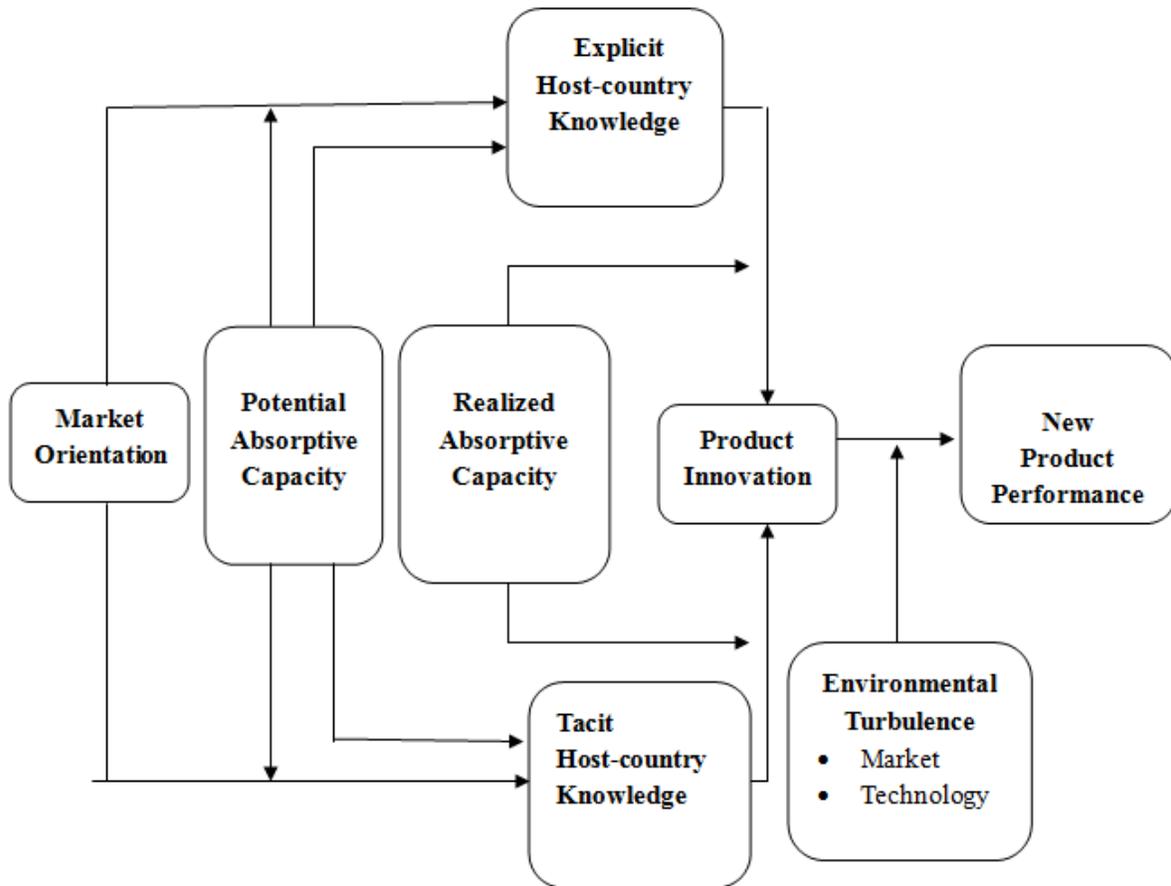
cultural values of a market orientation are necessary, but not sufficient, for the creation of a learning organization” (Slater & Narver, 1995, p. 63), and “for a firm to achieve its full potential to learn about the marketplace, instilling a market orientation is only a first principle” (Morgan, Katsikeas, & Appiah-Adu, 1998, p. 353). In order to make the higher-order learning occurs, market orientation needs to be complemented by appropriate mechanisms and processes (Morgan, Katsikeas, & Appiah-Adu, 1998). Slater and Narver (1995) have indicated learning orientation mediates the market orientation-performance relationship. Similarly, Hurley and Hult (1998) have found that market and learning orientations are separate antecedents of an innovation culture. Based on these arguments, we utilize organizational learning to complement RBV in developing our conceptual framework.

In the marketing management field, knowledge is increasingly recognized as an important factor which can enhance a firm’s competitive position and financial performance (Darroch & McNaughton, 2003). Although scholars have acknowledged that effective knowledge management can help a firm achieve its goals such as innovation (e.g., Brand, 1998; Carneiro, 2000; Madhavan & Grover, 1998), very few empirical studies have tested this link, except those investigating the market orientation-innovation relationship of the firm (e.g., Atuahene-Gima, 1996; Han, Kim, & Srivastava, 1998; Homburg & Pflesser, 2000; Hurley & Hult, 1998). An exception is Darroch and McNaughton’s (2003) study, in examining knowledge management as an analogous but a much broader concept than market orientation in that it emphasizes both market and non-market information, they found that firms with effective knowledge management outperform those with a market orientation culture alone. Thus, it is necessary to include knowledge management in examining the complex relationship between market orientation and performance.

In summary, we utilize the resource-based view of the firm (RBV), complemented by organizational learning, and knowledge management in developing our conceptual framework. In concordant with the RBV, we consider tangible and intangible factors, which enable a firm to improve its efficiency, effectiveness, and adaptability, as resources and capabilities (Barney, 1991; Capron & Hulland, 1999; Daft, 1983). In our research context, we focus on organizational learning, knowledge management, and innovation resources and capabilities. In addition, we adopt Zander’s (1991) definition that the process of knowledge transfer during the time of new product development includes the recipient’s acquiring, assimilating, transforming, and exploiting new knowledge. This knowledge transfer process is divided into two stages. The first stage of successful knowledge transfer involves the recipient’s acquiring and assimilating the new knowledge (i.e., potential absorptive capacity). The second stage is dependent on the recipient’s ability to transform and exploit the newly acquired and assimilated knowledge in developing new products (i.e., realized absorptive capacity).

Based on our earlier discussions, we argue that there are four resources and capabilities affecting a firm’s new product performance in foreign markets: market orientation, host-country knowledge (both explicit and tacit), absorptive capacity (both potential and realized), and product innovation. First, market orientation is a process of generating, disseminating, and responding to market intelligence (Kohli & Jaworski, 1990), thus market orientation influences a firm’s level of host-country knowledge. Second, we propose that potential absorptive capacity has both a moderating effect on the relationship between market orientation and host-country knowledge and a direct effect on host-country knowledge. Third, realized absorptive capacity has a moderating effect on the host-country knowledge-innovation relationship. Fourth, in addition to examining the antecedents to product innovation, we also investigate the outcome of product innovation. We argue that product innovation has a direct impact on new product performance, but its influence on new product performance is moderated by the level of turbulence in the host-country market (i.e., market and technology turbulence). In Figure 1, we present our conceptual framework. In the next section, we discuss the proposed relationships among the variables in the conceptual framework.

FIGURE 1
**A CONCEPTUAL FRAMEWORK OF MARKET ORIENTATION-PRODUCT INNOVATION-
 NEW PRODUCT PERFORMANCE LINKAGES IN FOREIGN MARKETS**



Market Orientation, Potential Absorptive Capacity, and Explicit and Tacit Host-Country Knowledge

Since our objective is to examine the market orientation-product innovation-performance linkages when a firm markets its existing but new-to-the-market products to an unfamiliar foreign market, we focus our discussions on host-country knowledge. There are two types of host-country knowledge: explicit and tacit. *Explicit host-country knowledge* refers to the knowledge which can be understood in the same way by most interpreters (Subramaniam & Venkatraman, 2001). In other words, individual interpretations or perspectives cannot influence the understanding of explicit host-country knowledge. Since they are usually based on universally accepted and objective criteria, many host-country product requirements are explicit knowledge (Subramaniam & Venkatraman, 2001). For example, although transmission systems for televisions differ from country to country because different countries adopt different engineering specifications, or cordless telephones must adjust to individual countries' regulations regarding frequency ranges, such differences can easily be codified and communicated internationally and are consequently likely to be understood in the same way by most competitors (Subramaniam & Venkatraman, 2001).

In contrast to explicit host-country knowledge, *tacit host-country knowledge* is defined as “the knowledge of differences among overseas markets that is difficult to codify and transfer in a systematic way” (Subramaniam & Venkatraman, 2001, p. 361). Cultures, tastes, habits, or customs of host countries

are typical examples of this kind of knowledge (Jain, 1989; Subramaniam, Rosenthal, & Hatten, 1998). Both explicit and tacit host-country knowledge are important resources for a company's new product success in an unfamiliar foreign market. However, in order to obtain these two types of knowledge, a firm needs to undergo the process of market orientation first.

According to the market intelligence perspective, intelligence generation, intelligence dissemination, and responsiveness are the three key elements of *market orientation* (Kohli & Jaworski, 1990). Market intelligence includes not only customers' current and future needs and preferences, but also current and future competitors' actions and exogenous factors such as government regulations, technology changes, and environmental forces. The first element of market orientation is intelligence generation. Intelligence generation can be done by formal and informal mechanisms (e.g., consumer surveys, focus groups, and market research) and should not be accomplished only by a firm's marketing department. Instead, all its functional departments such as research and development, manufacturing, and finance should participate in the process (Kohli & Jaworski, 1990).

The second element is intelligence dissemination. How effectively a firm communicates and disseminates generated intelligence among the functional departments partially determines its ability to adapt to market needs. It also provides different departments a shared basis for concerted actions (Kohli & Jaworski, 1990). The last element is responsiveness. Similar to intelligence generation, all functional areas in a firm should be responsive to the generated and disseminated market intelligence to create value to both the firm and its customers. Without responsiveness, the first two elements have no value at all (Kohli & Jaworski, 1990).

Since a host-country market consists of consumers, competitors, government, regulations, technological environment, and other factors, changes in the behavior of any of the above represent explicit and tacit host-country knowledge that a firm should take note of. This can be accomplished by a firm's market orientation which includes discovering, disseminating, and responding to these changes (Kohli, Jaworski, & Kumar, 1993). Thus,

P₁: Market orientation is positively related to (a) explicit and (b) tacit host-country knowledge.

Potential absorptive capacity refers to a firm's acquiring and assimilating external knowledge (Zahra & George, 2002). It also refers to a firm's capability to value and acquire external knowledge (Cohen & Levinthal, 1990). Acquisition is defined as a firm's capability to identify and acquire externally generated knowledge that is critical to its operations. Assimilation is defined as the firm's routines and processes that allow it to analyze, process, interpret, and understand the information obtained from external sources (Kim, 1997; Szulanski, 1996; Zahra & George, 2002). Thus, a firm's potential absorptive capacity should also affect the level of explicit and tacit host-country knowledge.

P₂: Potential absorptive capacity is positively related to (a) explicit and (b) tacit host-country knowledge.

Although market orientation and potential absorptive capacity appear to be similar constructs in that both emphasize a firm's ability to "generate" or "acquire," and to "disseminate" or "assimilate" market information. However, we argue that they are distinct constructs, and thus should be examined separately. One key difference between market orientation and potential absorptive capacity is that the latter stresses a firm's ability to find out the knowledge that is "critical" to its operations. In other words, a firm equipped with only market orientation may generate and disseminate market intelligence that is both relevant and irrelevant to its operations. However, a firm equipped with both market orientation and potential absorptive capacity may avoid this situation. The other key difference is potential absorptive capacity emphasizes not only acquiring and disseminating, but also assimilating external knowledge. Thus, a firm's potential absorptive capacity strengthens the positive relationship between market orientation and explicit and tacit host-country knowledge.

P3: The positive relationships between market orientation and (a) explicit and (b) tacit host-country knowledge become stronger as potential absorptive capacity increases.

Explicit and Tacit Host-Country Knowledge, Realized Absorptive Capacity, and Product Innovation

Product innovation has been defined as products that are new to the firm and/or new to the market (Booz, Allen, & Hamilton, 1982; Cooper & Edgett, 1999; Danneels & Kleinschmidt, 2001; Kleinschmidt & Cooper, 1991; Olson et al., 1995). Previous research has treated new-to-the-firm and new-to-the-market products as distinct constructs (Sandvik & Sandvik, 2003). Since our focus rests on a firm marketing its existing but new-to-the market products to an unfamiliar foreign market, we define *product innovation* as new-to-the-market products. New-to-the-market products are the first of their kind in the market (Sandvik & Sandvik, 2003).

Since explicit and tacit host-country knowledge derived from market orientation and potential absorptive capacity involves market intelligence and knowledge in response to market needs (Kohli & Jaworski, 1990; Slater & Narver, 1995), it helps a firm foster creativity which in turn enhances product innovation (Im & Workman, 2004). For example, market intelligence about customers' current and future needs and preferences creates a great opportunity for a firm to introduce novel and meaningful new products to its customers (Deshpande, Farley, & Webster, 1993; Gatignon & Xuereb, 1997; Han, Kim, & Srivastava, 1998), and market intelligence about competitors' actions also provides a firm a great chance to introduce products that are different from competitors' while new to the market (Im & Workman, 2004). Thus,

P4: (a) Explicit and (b) tacit host-country knowledge is positively related to product innovation.

Realized absorptive capacity has its moderating effect in the host-country knowledge-product innovation link. *Realized absorptive capacity* is a function of the transformation and exploitation capabilities of newly acquired and assimilated knowledge (Zahra & George, 2002). Transformation is defined as a firm's capability to develop and refine the routines that facilitate combining existing knowledge and the newly acquired and assimilated knowledge. Exploitation refers to an organizational capability based on the routines that allow firms to refine, extend, and leverage existing competencies or to create new ones by incorporating acquired and transformed knowledge into its operations (Zahra & George, 2002). Without possessing realized absorptive capacity, a firm is still able to acquire and assimilate host-country knowledge. However, only firms with realized absorptive capacity are capable of combining the newly acquired and assimilated host-country knowledge with their existing ones in order to cultivate useful knowledge for innovative product development. Thus,

P5: The positive relationships between (a) explicit and (b) tacit host-country knowledge and product innovation become stronger as realized absorptive capacity increases.

Moderating Effect of Environmental Turbulence on the Relationship Between Product Innovation and New Product Performance

New product performance can be defined in various ways. We define *new product performance* as the level of customers' adoption of new product (Rogers, 1983). Sandvik and Sandvik (2003) found that only the use of new-to-the-market products has a positive impact on business performance (e.g., relative price premium, capacity utilization, and sales growth). Im and Workman (2004) concluded that the creativity of new products and related marketing programs positively influence new product success (e.g., relative market shares, relative sales, relative return on investment, relative profitability, and meeting objectives). Since product innovations are a result of a firm's market orientation, organizational learning, and knowledge management processes, its products will most likely possess product advantage (i.e., the

benefits derived from the new product) and be accepted by its customers (Henard & Szymanski, 2001; Montoya-Weiss & Calantone, 1994). Thus,

P6: Product innovation is positively related to new product performance.

Since different markets have different levels of environmental turbulence, firms face more complexities when conducting business in the international than in the domestic context. *Environmental turbulence* can be further categorized into technology and market turbulence. *Technology turbulence* is defined as the rate of new product technology change, and *market turbulence* is defined as the rate of customer composition change, customer preference change, and competitor strategy change (Jaworski & Kohli, 1993). Thus, the contribution of product innovation to new product performance is contingent on the level of turbulence in the host country. Environmental turbulence has a moderating impact on the relationship between product innovation and new product performance in the host-country market because it takes time for a firm to learn and adjust to changes in the environment. In other words, identifying customer needs and translating them into product innovation in a turbulent market become more complicated. Even for firms with the latest innovation, their advantages will be offset as quickly as new product technology, customer composition, customer preference, and competitor strategy change (Ozsomer & Gencturk, 2002). Hence, market and technology turbulence may exert a negative moderating effect on the product innovation-new product performance relationship. Thus,

P7: The positive relationship between product innovation and new product performance becomes weaker as (a) market and (b) technology turbulence increase.

CONCLUSIONS

Using the resource-based view of the firm (RBV), complemented by organizational learning and knowledge management, we developed a conceptual framework examining the market orientation-product innovation-new product performance linkages. Our framework provides researchers and managers insights regarding “the journey from the market orientation to business performance” (Guo, 2002, p. 1154). It is especially critical for managers to realize the factors mediating the market orientation-new product performance relationship so as to assist them in developing an effective step-by-step plan.

We draw managers’ attention to the fact that both explicit and tacit host-country knowledge are important types of knowledge when venturing into a foreign market. Furthermore, managers should recognize the important role of potential and realized absorptive capacity in that they affect the level of their firm’s host-country knowledge, as the knowledge transfer process consists of two stages (Zander, 1991). Managers should be aware of the fact that just having one of these two absorptive capacities is insufficient for their firms to secure the necessary knowledge in competing in today’s volatile environment. Equally important, managers should realize that although product innovation in a foreign market is positively related to its performance, environmental turbulence in a foreign market will likely attenuate this positive relationship. We caution managers to continuously monitor the host-country market environment even after the new product has been introduced.

We offer future research directions in extending our conceptual framework. First, since there are various definitions of market orientation (e.g., Deshpande, Farley, & Webster, 1993; Kohli & Jaworski, 1990; Narver & Slater, 1990), future research should examine the differential relationships between market orientation and host-country knowledge using other market orientation perspectives. Second, two decision criteria (i.e., long-term focus and profitability) relating to Narver and Slater’s (1990) original conceptualization of market orientation have been purposely ignored by scholars. This oversight is due to the two constructs’ low reliability values that were not sufficiently high enough to be included in Narver and Slater’s (1990) model (Nobel, Sinha, & Kumar, 2002). Researchers should investigate these two decision criteria in the future if they choose to adopt Narver and Slater’s (1990) definition of market

orientation. Third, competitive resources and capabilities other than market orientation, host-country knowledge, absorptive capacity, and innovation should also be examined in the future; for example: both suitable internal and external core capabilities (e.g., skill and knowledge base, technical systems, managerial systems, and values and norms) (Leonard-Barton, 1992) are important capabilities that affect product innovation. Future research should examine the effects of these capabilities on product innovation in foreign markets. We believe that the market orientation-product innovation-new product performance has considerable potential for further research. Our conceptual framework provides a foundation for subsequent empirical studies.

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