Market Orientation, Alliance Governance, and Innovation

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ABSTRACT

Relying on resource dependence theory and transaction cost economics, this article discusses the important role of alliance governance as a mediating mechanism in the relationship between market orientation and innovation, and compares the differences between the influences of different dimensions. The article aims to reveal the influence mechanism of different types of alliance governance on the relationship between market orientation and innovation. Based on a sample of 122 Chinese manufacturing enterprises, the article finds that: (1) contractual governance will increase when customer orientation and competitor orientation become higher, and contractual governance will affect radical innovation in a U-shaped way; (2) trust governance will increase when inter-functional coordination become higher, and trust governance has a positive impact on both radical innovation and incremental innovation (II).

KEYWORDS

Alliance Governance, Incremental Innovation, Market Orientation, Radical Innovation

1. INTRODUCTION

Market orientation is defined as organization generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organizationwide responsiveness to it (Kohli & Jaworski, 1990). In recent years, the impact of market orientation on innovation has attracted the sustained interest and attention of scholars (Im & Workman, 2004; Zhou, Yim & Tse, 2005; Morgan, Vorhies & Mason, 2009). However, there are different views on this topic that are grouped into three schools of thought. The early research claims that market orientation has a direct impact on innovation, because market orientation as an organizational culture helps companies better understand customer needs and competitors and thus promotes innovation (Narver & Slater, 1993; Jaworski & Kohli, 1990). A second viewpoint is that market-oriented companies are too concerned about the current customer needs to fulfill real innovations (Christensen & Bower, 1996; Voss & Voss, 2000). This group of researchers argues that innovation will not be influenced directly by market orientation as organizational culture, but through some middle mechanisms such as organizational learning and creativity (Zhou, Yim & Tse, 2005, Li & Atuahene-Gima, 2001). Specifically, they find that under different levels of learning orientation, market growth or entrepreneurial orientation, market orientation will lead to different innovative performance (Gatignon & Xuereb, 1997; Hurley & Hult, 1998; Matsuno, Mentzer, & Özsomer, 2002). The most recent

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thinking advocates a view of market orientation and innovation as multidimensional concepts, which means that the divergent findings in previous research can be explained by the differential effects of multiple dimensions on innovation (Atuahene-Gima & Ko, 2001; Zhou et al., 2007).

The dilemma exists in the managerial practices as well. Nokia, founded in 1865, used to be the NO. 1 brand from 1990 to 2003 in the mobile phone market. However, the market share of Nokia reduced from 39% in 2008 to 25% in 2011, and it was surpassed by the Apple and Samsung in the smart phone market. The paradox is that Nokia always paid large attention to meet customer needs and invested huge money in R&D projects. As its annual report stated, Nokia invested about € 5.8 billion in R&D in 2010, which is more than 4 times of that in its competitor Apple. Many professors in this industry claim that Nokia’s failure is rooted in deficiency of transforming advanced techniques into real innovations creating customer values. Then the question emerges: why a market-oriented firm like Nokia cannot achieve innovations that customers buy?

Based upon the academic studies and managerial practices, we argue that three important gaps exist in the literature. First, the prior research focuses more on the direct impact of market orientation on innovation, and not enough attention is paid to the middle mechanisms between market orientation as a type of organizational cognition and innovation as an organizational behavior. In a manufacturing context, it is often difficult to acquire accurate information about end customer needs and competitors’ activities in a timely manner in order to support their market-oriented corporate culture due to intermediaries in the supply chain, which create organizational distance between the manufacturer and the end customer. Therefore, in manufacturing, governance mechanisms with distributors that give manufacturers access to the market may be an important middle factor in innovation. Second, although research has gradually viewed market orientation and innovation as multidimensional concepts, the differential effects of different dimensions of market orientation have not yet been effectively verified. Third, most of the existing research is rooted in Western countries and studies of Chinese firms that operate in a very different economic environment are relatively scarce. China is currently in a period of transition from a state controlled to a market economy, in which the legal system and contracts become much more important. Chinese enterprises therefore particularly value relational governance in an alliance relationship (Gao, Wang & Chen, 2012). In this context, it is important to conduct research that can be used to guide the practices of Chinese firms in this area.

We rely on resource dependence theory (RDT) and transaction cost economics (TCE) to provide an overview of the research framework. This study suggests that seeking effective alliance governance is an important mechanism to enhance innovations for market-oriented manufacturing firms. In particular, we should treat market orientation as a multidimensional concept. Customer orientation, competitor orientation and interfunctional coordination are likely to lead to differences in alliance governance, either as contractual governance or trust governance. Moreover, different governance patterns may help firms get different kinds of market information, resulting in different types of innovation (incremental innovation or radical innovation). In this study, we identify the important middle role of alliance governance in the relationship between market orientation and innovation. The differential impacts of the three types of market orientation on two alliance governance patterns are considered, and we explore the influence of contractual governance and trust governance on radical and incremental innovation.

2. LITERATURE REVIEW

2.1. Market Orientation and Innovation

Market-oriented firms pay close attention to customer needs and competitors’ activities, and response rapidly in order to enhance their competitive advantages. Differing from traditional product-driven marketing that focuses on pushing products into markets by promoting quality and lowering prices, market orientation concentrates on continuously detecting customer needs and quickly filling them
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