

MARKET ORIENTATION AND ORGANIZATIONAL PERFORMANCE: A NEW PRODUCT PARADOX?

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An integrative nomological network of the effects of market orientation on organizational performance is tested. This research reconciles inconsistencies in prior research by demonstrating simultaneous direct effects of market orientation on new product success and profitability, but only indirect effects on changes in market share. The finding that market orientation's effect on new product success was partially mediated by its influence on the priority that firms place on higher order learning (i.e., generative as opposed to adaptive learning or modeling) support theoretical assertions that had yet to be empirically tested. Prior research is also extended by two unexpected paradoxes relating to new product success. First, the effect of generative learning on new product success was positive when it was mediated by an increase in the priority that firms place on radical innovation. Otherwise, its effect on new product success was negative. Second, the effect of new product success on profitability was positive when it was mediated by an increase in market share. Otherwise its effect on profitability was negative. These paradoxes are believed to reflect the ability (or inability) of firms to coordinate their capabilities (market orientation is one such capability), resources and strategic priorities. Generative learning without radical innovation and new product success without an increase in market share reflect poor coordination, and as a result, impair new product success.

STUDY HYPOTHESES

- H1A: Market orientation directly influences new product success.
- H1B: The effect of market orientation on change in market share is mediated by new product success.
- H1C: The effect of new product success on profitability is mediated by change in market share.

- H2A: Market orientation directly influences the relative priority that firms place on generative learning (as opposed to adaptive learning or learning through modeling).
- H2B: The effect of market orientation on the relative priority that firms place on radical innovation (as opposed to competitor-driven or manager-driven incremental innovation) is mediated by the priority that firms place on generative learning.
- H2C: The relative priority that firms place on radical innovation directly influences new product success.

KEY FINDINGS

All hypotheses were supported. The tests of H1A replicate prior findings. The tests of H1B and H1C extend prior research by demonstrating a more complete set of interrelationships among market new product success, change in market share and profitability. H2A-H2C extends prior research by relating market orientation to the use of specific learning and innovation strategies.

The 'new product paradox' relates to unexpected findings relating to a direct effect of generative learning priority on new product success and a direct effect of new product success on profitability. Both effects were significant, but negative.