The Strategic Fit of Multiple Strategic Orientations and New Product Development Performance in Malaysian Manufacturing Firms: A Conceptual Framework

Siti Norhasmaedayu Mohd Zamani; Hasbullah Ashari; Asmat Nizam Abdul Talib

School of Technology Management & Logistic, College of Business, Universiti Utara Malaysia, Malaysia
School of International Business, College of Law, Government & International Studies, Universiti Utara Malaysia, Malaysia
edayu@uum.edu.my

Abstract

Resource orientation (RO) and market orientation (MO) are two important strategic orientations that have significant impact towards new product development (NPD) performance. Although research has examined the RO and MO individually, limited research has evaluated and compared their effect on new product success in one study. Furthermore, only a few have matched the fit between both strategies and tests their effect on firm performance and none of them so far has study the role of external environment factors on the relationship between the fit of both strategies towards NPD performance. The purpose of this paper is to develop a conceptual framework of the impact of strategic fit towards NPD performance. The objective of the study is to determine the effect of strategic fit between RO and MO towards new product development performance. Specifically, it aims to evaluate whether single strategy or the fit between both strategies will have the greater impact on new product development performance. More importantly, the research will investigate the role of external environmental variables (i.e., market turbulence and technological turbulence) on the relationship between two strategic orientations and performance. In this paper, the researchers conducted a desk research by reviewing the literature to understand the impact of resource orientation, market orientation and environmental factors towards NPD performance. The practitioners and academicians will find this framework beneficial in their own, various scope as this study provide a clear guideline on how the variables interact with each other.

Keywords: Strategic orientation; Strategic fit; NPD performance; Environmental factors; Malaysia.

1. Introduction

New product development (NPD) is an engine of economic growth (Schumpeter, 1934). It is frequently expressed in the marketing and management literatures that product development is important because new products are becoming the nexus of competition of many organizations (Brown & Eisenhardt, 1995; Clark & Fujimoto, 1991). In order for firms to have sustained competitive advantage in the long run, firms should continuously engage in creating new products and services (Hunt, 2000; Hunt & Morgan, 1995; Schumpeter, 1934).

In current years, there has been a considerable interest in Malaysian manufacturing firms in New Product Development (NPD) which is considered to be indirectly a booster for the success of a firm. This is based on the fact that Malaysia was heavily dependent on agriculture which was gradually shifted to manufacturing (Al-Shalabi, Omar, & Rundquist, 2007).
Since it is well recognized that new products are the life-blood of an organization (Perks, 2000), scholars have recently turned their attention toward understanding the success factors of new product development. The last three decades have witnessed considerable research on new product development (NPD), particularly on determinants of new product performance (Cooper, 1979; Cooper & Kleinschmidt, 1987; Rubinstein, 1976). As a result, a lot of factors influencing the outcomes of NPD have been identified, including strategy, product, market, environment, organization, project team, and management (Craig & Hart, 1992; Brown & Eisenhardt, 1995; Montoya-Weiss & Calantone, 1994).

These studies have lead to a number of recommendations for industrial managers to improve their management of NPD activities. Improvement in NPD could enhance the industry’s competitive position. An understanding of NPD practice could assist both government and industry to formulate innovation policy and strategies during critical economic reform period (G. Huang, Huang, & Mak, 2000).

Resource orientation (RO) and market orientation (MO) are among the strategic orientation that has been recognized as the drivers of the NPD. RO, originated from the theory of Resource-based View (RBV) were aims to clarify how a firm’s resources drive its performance in a dynamic competitive environment (Collis & Montgomery, 1995). The RBV is primarily internally oriented, in that its focus lies with the development and deployment of unique firm resources. It is concerned with accumulating a unique resource base that is immobile and heterogeneous (Barney, 1991).

On the other hand, MO “creates the necessary behaviors for the creation of superior value for buyers and thus, continuous superior performance for the business” (Narver & Slater, 1990). Hence, this orientation is externally oriented in that its primary focus resides with the satisfaction of market needs and then attention is drawn to internal processes (Paladino, 2008). Market orientation permeates the organization, impacting all business activities. Many researchers are increasingly referring to market orientation as a strategy, recognizing the impact that its pursuit has on a firm’s long-term decision-making strategies (Greenley, 1995).

Previous studies have tested the single (e.g: Paladino, 2007, 2008) and integrated effect (e.g: Paladino, 2009) of RO and MO towards company performance, however none of them have specifically studied the effect of fit between both orientations towards NPD performance, and also the impact of environmental factors towards strategic fit-NPD performance relationship. This paper will provide the conceptual framework, thus fulfill the stated gaps by clarifying the roles of strategic fit between resource and market orientation as the drivers of NPD performance and the roles of environmental factors in determining the relationship between strategic fit and NPD performance in Malaysian Manufacturing firm.

2. Problem Statement

Many studies have examined the RO and MO individually (e.g: Kohli & Jaworski, 1990; Baker & Sinkula, 2005; Narver & Slater, 1990; Sharma & Vredenburg, 1998; Slater & Mohr, 2006; Wernerfelt, 1984) and limited research has evaluated and compared their single (e.g: Paladino 2007, 2008) and integrated effect (e.g: Paladino 2009) on firm
performance in one study. However, none of them have specifically studied the effect of strategic fit of both orientations towards NPD performance. Furthermore, no research to date has the studied the roles of environmental factors towards NPD performance.

Paladino (2007, 2008) has come out with the research that seeks to clarify the best strategy between RO and MO towards business performance where NPD success is one of the dimensions involved. Specifically, Paladino (2008) evaluated whether a focus on the customer or the firm will impact firm success, and the result shows that RO have a greater impact on NPD performance compared to MO.

Paladino (2009) has expended the strategy-performance study by matching two strategic orientations (i.e., resource orientation and market orientation) and test the integrated effect of both orientations towards firm performance which has the element of innovation as one of the dimensions. However as mention before, no research to date has specifically determine 1) the impact of strategic fit between both orientations towards NPD performance as a whole and 2) the effect of internal and external environmental factors on the relationship between the matched strategic orientation and NPD performance.

In order to thoroughly study the above issues, we believed that a proper framework is needed as a guide to set the focus of the research. Thus, this study will provide the strong justification and argument based on the literature in order to develop a research framework that will capture the relationship between resource orientation, market orientation, environmental factors and NPD performance. To the best of our knowledge, no research framework exists to guide the study of these variables in the Malaysian context.

3. Objectives of the Study

This study seeks to understand the relationship between resource orientation, market orientation, environmental factors and NPD performance by reviewing the literature. At the end of the study, it is hoped that a conceptual framework can be developed based on the literature review in order to guide further study on the stated issues and problems. This framework can helps practitioners and academicians to initially understand the relationship between the variables before analytically justifying the study using empirical analysis.

4. Methodology

This study applied secondary research or also known as desk research which involves the summary, collation and/or synthesis of existing research. Secondary research is defined as an analysis and interpretation of primary research. The method of writing secondary research is to collect primary research that is relevant to a writing topic and interpret what the primary research found. In this study, secondary research or desk research was conducted by reviewing the literature leading to identification of variables incorporated into the conceptual framework (Dzansi & Tasssin-Njike, 2014).

5. Literature Review

5.1 New product development

New product development (NPD) has long been recognized as one of the corporate core functions (X. Huang, Soutar, & Brown, 2002) and a key to corporate prosperity
(Lam, Chin, Yang, & Liang, 2007). It allows companies to gain competitive advantage, attract new customers, retain existing customers, and strengthen ties with their distribution network (Cooper & Kleinschmidt, 2011; Kotler & Keller, 2006). During the past 25 years NPD has increasingly been recognized as a critical factor in ensuring the continued existence of firms (Biemans, 2003) where a few important factors such as intense global competition, rapid technology change and shifting patterns of world market opportunities have forced companies to continually invest in New Product Development (NPD); not only for profit, but more importantly, for the survival of the company, therefore NPD has been considered as one of the key to success for many businesses (Cooper, Edgett, & Kleinschmidt, 2003; Gerwin & Ferris, 2004; Wheelwright & Clark, 1992).

A multitude of factors contribute to an increase feeling of urgency to improve the processes for developing new products. Examples of such factors are: significant pressures from increased levels of competition, rapidly changing market requirements, higher rates of technical obsolescence, shorter product life-cycles and the heightened importance of meeting the needs of increasingly sophisticated customers (Gordon & Ayers, 1995; McGrath, Anthony, & Shapiro, 1992).

Past studies on NPD practices have shown that there are as many as 72 determinants of NPD success (Montoya-Weiss & Calantone, 1994) and 53 ways to measure NPD success (Hart, 1993). More applied researchers have examined numerous factors that influence the success/ failure rate of new products including (but not limited to) pre-development activities, resource allocation, new idea generation and screening, the presence or absence of team leaders and champions, interfunctional coordination, the R&D and marketing interface, marketing and manufacturing interface, prototype design, test marketing activities, and strategic partnering (Norsiah, 2008).

In industries as the automobile, biotechnology, consumer and industrial electronics, computer software, and pharmaceutical industry, companies often depend on products introduced within the last five years for more than 50 percent of their annual sales (Mat & Jantan, 2009). However, new product failure rates are still high. The failure rate of new products is somewhere between 40 and 75% (Stevens & Burley, 2003). Companies that fail to develop new products are putting themselves at great risk, because some of them and their existing products are vulnerable to changing customer needs and tastes, new technologies shortened product life cycles, increased domestic and foreign competition (Kotler & Keller, 2006). Since the success rate of new products worldwide has been low (Bogue & Delahunty, 1999), increasing understanding of what drives new product success is critical and with the high costs associated with new product development, minimization of the high failure rate is a topic of considerable theoretical and managerial interest. Past researchers have critically investigated the factors that influence NPD performance. Among the most popular and significant factors that affect NPD performance is resource orientation and market orientation.

5.2 Resource Orientation

RO is defined as the organizational orientation that creates the necessary behaviors to identify, apply and accumulate unique and valuable resource bundles that create superior organizational value and a
sustainable competitive edge (Paladino, 2006). A RO focuses on how firms create and deploy firm-specific resources when making strategic decisions and is intent on leveraging existing resources to enhance performance (Chmielewski & Paladino, 2007). The Paladino (2006) study assessed RO relative to market orientation, an alternate strategic orientation used in the marketing literature. This study demonstrated similar findings with respect to the effects of RO on financial outcomes, thereby proving the viability of RO as a legitimate strategy.

The adoption of a RO is dependent on whether resources and capabilities possess essential qualities. These qualities act as determinants or essential prerequisites for the adoption of a RO (Chmielewski & Paladino, 2007). Given the introduction in 2006 of the RO scale in the literature, it is not surprising that research regarding RO and performance is still scarce. Resource orientation is composed of three dimensions: synergy, uniqueness, and dynamism.

The literature has indicated that formidable relationships exist between distinct resources and performance (e.g., Maijor and Van Witteloostuijn, 1996; Paladino, 2007; Sharma and Vredenburg, 1998; Wernerfelt, 1984). Superior firm resources may also translate into new product success, as they enable firms to attain more market power and thus competitive advantage (Gatignon and Xuereb, 1997). As such, firms are able to dedicate many resources to innovation design and implementation. Scarbrough (1998) goes as far as to state that an RO enables a firm to influence the market context in which it competes through new product development and innovation.

5.3 Market Orientation

According to Kohli and Jaworski (1990), market orientation is the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it. They also suggested that a market orientation creates a collaborating focus in the management of the new product development process and this leads to superior company performance.

While Jaworski and Kohli (1993) argued that market orientation is concerned with behaviors and activities in the organization, Narver and Slater (1990) relate the market orientation with cultural perspectives and argued that the behavior and culture of an organization are inter-linked in which an organization’s behavior is shaped by its culture and over time culture is shaped by the organization’s behavior and performance. However, Deshpande et al. (1993), and Deshpande and Farley (1998) mentioned that market orientation is not a culture but a set of activities in an organization.

Superior organizational performance can be achieved as market oriented firms is able to satisfy customers through tracking and responding to customer needs and preferences (Jaworski and Kohli, 1993). Furthermore, a market oriented organization performs better in the market since the firm develops an organizational culture in delivering superior value to customers (Narver and Slater, 1990; Pelham and Wilson, 1996; Slater and Narver, 1994). The first empirical study to examine the link between market orientation and new product success was by Slater and Narver (1994). Since then, there has been sporadic interest in the topic (e.g., Appiah-Adu & Ranchhod, 1998; Baker & Sinkula, 1999; Kahn, 2001; Langerak, 2001; Matsuno, Mentzer, &
Özsomer, 2002; Subramanian & Gopalakrishna, 2001).

The literature suggests that market orientation is connected with firms’ new product performance in three major ways (Wei & Morgan, 2004). First, market-oriented firms have superior market information gathering and processing abilities that allow them to learn about marketplace changes quickly and accurately (e.g., Pelham, 1988). This provides a superior knowledge of customers’ needs and buying behaviors, market potential, and competition, which facilitates the development and launch of timely new products (e.g., Cooper, 1979; Day, 1994; Li & Calantone, 1998). Second, market orientation involves close and effective cross-functional cooperation (e.g., Narver and Slater, 1990; Wren, Souder, & Berkowitz, 2000). Such close cooperation among different functional areas also has been identified in NPD literature as an important antecedent to NPD success (e.g., Atuahene-Gima, 1996; Cooper, 1994). Third, by responding to marketplace changes in increasingly dynamic environments, market-oriented firms deal with greater uncertainty and take greater risks than their less market-oriented counterparts (e.g., Jaworski and Kohli, 1993; Kohli and Jaworski, 1990).

5.3 Strategic Fit

Venkatraman (1990) has initially introduced the concept of fit, defined as the alignment between a firm’s strategy and its environment (Venkatraman, 1989; Venkatraman & Prescott, 1990), which includes the internal and external environment, firm’s competencies and resources, as well as its structure and administrative systems (Acur, Kandemir, & Boer, 2012). The concept of fit is widely used in, for example, strategic alliance literature (Douma, Bilderbeek, Idenburg, & Looise, 2000) or in research in the field of diversification (Reed & Reed, 1989).

Rooted in the contingency theory tradition (Miller & Friesen, 1984), strategic fit, which is also referred to as congruency, contingency, matching, or coalignment, has gain a large attention and become the central thrust in both strategic management research (Miles & Snow, 1978) and organizational studies (Fry & Smith, 1987; Venkatraman and Prescott 1990), especially in the development of middle range theories in management disciplines, started in the mid 1980s (Christiansen, 2008).

According to Galbraith (1977) fit, or ‘coherence,’ is the primary determinant of success. Strategic management (Powell, 1992; Venkatraman & Prescott, 1990; Yin & Zajac, 2004) and marketing (Kabadayi, Eyuboglu, & Thomas, 2007; McKee, Varadarajan, & Pride, 1989; Olson, Slater, & Hult, 2005; Vorhies & Morgan, 2003) studies present empirical evidence for the positive effects of fit among a firm’s strategy, structure, processes, and context on firm performance, including the success of new products.

Moreover, it has contributed in explaining the interaction between strategy and functional areas such as human resource management (Baird & Meshoulam, 1988; Gratton & Truss, 2003; Becker et al., 2001) and information management (Henderson & Venkatraman, 1999; Luftman & Brier, 1999; Venkatraman, Henderson, & Oldach, 1993). In these fields, the concept of fit has encouraged a preference for the term “alignment” to emphasize variation and flexibility among the elements to be fitted. Thus, the terms “alignment” and “fit” are used interchangeably in the literature.
Strategic management research suggests that firms that are able to balance seemingly contradictory or paradoxical strategic orientations or organizational capabilities are likely to have better performance than those that have similar or singular strategic orientations. For example, Craig and Hart (1992) theorizes that firms that combine discrepant strategy-making modes should perform better than single-mode firms should. The logic is that such firms have more "high processing" capacity than single-mode firms. Consistent with this theme, Prahalad and Bettis (1986) suggest that a single-mode orientation by itself may suffer from limitations and biases; hence, combining the varied logics associated with different strategic orientations holds better potential for improving performance.

This current study will follow the recommendation by previous scholars who suggested that the research on strategic orientation should be expended by investigating the interaction, or in this study-the strategic fit or the synergistic impacts of multiple strategic orientations on firm performance. In this study, the strategic fit will be used to integrate the importance of resource orientation and market orientation and their relationship towards new product performance. It is expected that the fit between resource orientation and market orientation will have the significant impact on innovation and new product performance.

5.4 Environmental Turbulence

Past researches have reported that the environment- specifically market and technological turbulence, not only moderates the success of new product introduction, but also the effectiveness of different strategic choices or orientations associated with new product development (Gatignon & Xuereb, 1997; Jeong, Pae, & Zhou, 2006; Li & Calantone, 1998; Lukas & Ferrell, 2000; Yang, Wang, Zhu, & Wu, 2012; Zhou, 2006). Following contingency theory, the effectiveness of strategies is not universal to organizations and environmental conditions. Consequently, strategic decisions must consider and be adapted to the environment (Ginsberg & Venkatraman, 1985).

Market turbulence is the extent to which customer needs, composition and preferences have changed and the extent to which marketing operations and strategies have changed as a consequence (Jaworski and Kohli, 1993; Slater and Narver, 1994; Han et al., 1998). On the other hand, technological turbulence is the extent to which the industry is characterized by rapidly changing technologies (Jaworski and Kohli, 1993). This type of uncertainty can paralyze strategic planning because decision-makers will spend more time discussing how the environment will evolve, assessing the impact on the organization, and developing different courses of action. Technological turbulence denotes both the instability of technology and innovation acceleration that causes a firm to change the way it copes (e.g., processes or operations adoption to accommodate the turbulence) (e.g., Han et al., 1998).

There is growing support for a contingency theory perspective of the influence of environmental turbulence on market-oriented behaviors. As Slater and Narver (1998) argue, in a turbulent environment: the more enduring advantage is an ability to anticipate evolving customer needs and to generate new value-creating capabilities based on that knowledge. Specifically, turbulent market conditions exert pressure on firms to quickly generate and disseminate new knowledge about the market place, and to respond rapidly to the changes occurring. In other
words, a turbulent, dynamic market requires a firm to be responsive and adapt to changes in its environment (Rajagopalan & Spreitzer, 1997). It is at this time that a superior degree of market orientation is highly desirable and most difficult to achieve (Kumar, Gupta, & Banerjee, 1998; Slater & Narver, 1994).

In times of low turbulence, companies need to research evolving customer needs to acquire an edge over competitors rather than to wait for turbulent times to set in where such a task would prove difficult. Less turbulent conditions appear to merit lower levels of market-oriented behavior (e.g., Avlonitis & Gounaris, 1999; Egeren & O'Connor, 1998). Meanwhile, in a stable environment, customer preferences are unlikely to change significantly, hence simplifying the task of customer needs and preference assessment. To summarize, ‘environment-market orientation fit’ is achieved by adjusting market-oriented behavior levels to match the demands placed on the firm by the environment. This suggests that market turbulence influences both strategic decision making and the selection of a firm’s strategy.

Market turbulence will also allow a company to avoid the establishment of routines and predictability that would otherwise impede it from change in the future. In addition, a company’s unique resource base will also enable it to be responsive to change (Grant, 1991). Many resource bundles, especially those related to knowledge, are flexible and dynamic, allowing companies to fully exploit the applicability and robustness of their resource base in a number of settings.

Consistent with Kohli and Jaworski (1990) and Slater and Narver (1994), a market orientation is not pertinent in technologically turbulent settings, as most research and development will be responsible for major innovations that occur outside the industry. As asserted by Jaworski and Kohli (1993), market orientation is one avenue through which to gain a competitive edge, enabling a corporation to understand and respond to customer needs.

However, when technological innovations take place that enable a firm to attain a competitive advantage, the importance of market orientation diminishes. As a result, a company need not rely on its practice to gain and maintain an advantage in the marketplace in the interim. Instead, a company needs to focus on the development of its resources and to apply them to the marketplace to be able to produce innovations or to leverage its resources in the search (and attainment) of a competitive edge.

6. Underpinned Theory

This study applied the concept of contingency as underpinned theory. An important early contribution about contingency theory was made by Chandler (1962), who considered the contingency relationship between a firm’s corporate strategy and its internal administrative structure (specifically, divisional versus functional form). Contingency theory suggests that there is no optimal strategy for all organizations and posits that the most desirable choice of strategy variables alters according to certain factors, termed contingency factors (Donaldson, 1996). Accordingly, strategic management scholars have examined a wide range of contingency factors, such as aspects of the environment, organization structure (Miller, 1992), technology (Dowling & McGee, 1994), and marketing choices (Claycomb, Germain, & Dröge, 2000), and explored how these and other factors interact with strategy variables to determine firm performance.
Contingency theory seeks to understand the behavior of a firm by analyzing separately its constituent parts, making disaggregated one-to-one comparisons of variables and their links with performance (Meyer, Tsui, & Hinings, 1993). It implies that organizational effectiveness (measured, for example, in terms of firm performance) is a function of the fit between contingency factors. According to (Galbraith, 1977) fit, or ‘coherence,’ ‘is the primary determinant of success.’ For example, it can be argued that alignment between a firm’s administrative structure and its diversification strategy has positive implications on firm performance (Chandler, 1962). This theory was found suitable for this current research since it will study the impact of two strategic orientations; resource orientation and market orientation; and environmental factor towards performance, specifically new product development performance.

7. Conceptual Framework

As captured in figure 1 below, it is argued that the relationships exist between RO and various types of firm performance (e.g., Makhija, 2003; Paladino, 2008; Sharma & Vredenburg, 1998). Similarly, the literature has demonstrated the presence of significant and positive relationships between MO and the firm performance (Jaworski and Kohli, 1993; Kohli and Jaworski, 1990; Narver and Slater, 1990; Slater and Narver, 1994). Strong associations have been found for each orientation on performance outcomes throughout this extant research. Thus, it is expected that both orientation will lead to successful new product development performance.

Paladino (2009) is the first that study the impact of interaction between RO and MO towards firm performance and indicate that RO would independently impact performance but would require some customer focus through MO to significantly impact innovations. So it is expected that strategic fit between RO and MO has a significant impact on NPD performance.

Research has shown that environmental characteristics have a considerable impact on corporate strategy and outcomes (Morgan & Piercy, 1998; Wei & Morgan, 2004). Thus, it is expected that environmental factors, specifically market turbulence and technological turbulence will strengthen the relationship between RO-MO strategic fit and NPD performance.
8. Conclusion

The conceptual framework presented in figure 1 provides a clear understanding on the relationship between resource orientation, market orientation, environmental factors and NPD performance based on the desk research of the literature. As captured in figure 1, resource orientation, market orientation and the strategic fit of both orientations may influence the performance of the new product development, with the environmental factors as moderator. While there can be no one-size-fits-all framework to address a research problem, our framework provides a useful framework to guides the practitioners of the Malaysian firms in understanding the interplay between all suggested factors that might influenced new product development performance. Furthermore, it was expected that the instrument developed for the study would be able to be used by managers as a measurement tool. This would enable firms to benchmark their firm’s strengths and weaknesses especially in implementing the strategic orientation within the firm. For the academic scope, this research seeks to contribute to international marketing and operation literature by providing insights on the effect of resource orientation, market orientation and environmental factors towards new product development performance. The study also will contribute to the literature on Malaysian firms by investigating the drivers of new product development performance in Malaysian company.

References


