

When do customer orientation and innovation capabilities matter? An investigation of contextual impacts

Investigation
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Abstract

Purpose – Grounded on resource-advantage (R-A) theory, the purpose of this paper is to investigate how customer orientation, as a higher-order or interconnected operant resource, enhances firm performance through creativity capability (i.e. idea generation and problem solving) and innovation capability (i.e. the implementation of creative ideas) – among firms of different sizes and within different market contexts. The authors conceptualize customer orientation as a firm's capacity to create and deliver superior customer value through the processing of market intelligence, as demonstrated by the firm's composite operant resources of market-sensing, customer-relating and customer-response capabilities.

Design/methodology/approach – Data were collected via qualitative in-depth interviews for scale development followed by a mail questionnaire survey for quantitative responses. A final sample size of 190 firms based in Thailand participated and the data were analyzed using structural equation modeling and bootstrapping multi-group comparisons to investigate the hypothesized mediation and moderation effects.

Findings – Customer orientation enhances organizational creativity and innovation capabilities, which improve firm revenue and financial performance. The relationships among customer orientation, creativity capability, innovation capability and firm performance vary depending on firm size, market dynamism and customer type.

Practical implications – Managers need to consider contextual factors, particularly firm size, market dynamism and the nature of their buyer markets as key contingencies in their resource deployment decisions intended to develop customer orientation and innovation capabilities.

Originality/value – This study advocates R-A theory by empirically revealing how different hierarchical resources within a firm are intertwined to provide firms with competitive R-A. The findings further highlight a contingent nature of customer orientation–innovation–performance relationships among firms in an emerging economy.

Keywords Thailand, Resource-advantage theory, Innovation capability, Customer orientation, Creativity capability

Paper type Research paper

Introduction

The capacity of firms to understand customers and to be innovative has been widely advocated in the business and trade literature as a means for firms to stay competitive and to enhance their firm value (e.g. Rust *et al.*, 2010). Nevertheless, past literature on the customer orientation–innovativeness relationship remains inconclusive. While some scholars claim that customer orientation fosters innovation capabilities (Brockman *et al.*, 2012; Day, 1994; Jayachandran *et al.*, 2004; Liu, 1995), others argue that it merely inhibits innovation processes (Christensen *et al.*, 2005). Despite such mixed findings, firms continue allocating resources to learning activities, such as market research and information systems, which improve understanding of customers and enrich activities designed to improve innovations (e.g. new product development (NPD), advanced manufacturing technologies) in

