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RESOURCE-BASED VIEW: THE EFFECT OF PRODUCT INNOVATION ON MARKET ORIENTATION AND PERFORMANCE RELATIONSHIP

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Abstract:

Di tengah lingkungan yang turbulen saat ini, dimana ketidak pastian sangat tinggi, mengakibatkan perusahaan-perusahaan harus merancang dan mengimplementasi strategi yang sesuai dan adaptif dengan perubahan yang terjadi. Dalam kondisi ini berlaku hukum "yang kuat yang selamat", artinya, untuk menang di tengah persaingan perusahaan harus mampu menciptakan nilai yang lebih baik dibanding pesaing. Perusahaan harus mampu menciptakan, mengeksploitasi dan mempertahankan keunggulan bersaingnya untuk menjadi pemenang dalam persaingan. Perusahaan dikatakan memiliki keunggulan bersaing yang bertahan manakala perusahaan mampu mengimplementasi strategi penciptaan nilai yang pada saat bersamaan tidak diimplementasi dan tidak dapat diduplikasi oleh perusahaan pesaing. Salah satu faktor penting dalam mempertahankan keunggulan bersaing adalah "product innovation".

Product innovation merupakan media bagi keberhasilan bisnis. Product innovation menjadi semakin penting sebagai alat untuk mencapai pertumbuhan, bukan hanya kemampuan bertahan. Dalam jangka panjang, product innovation merupakan alat yang paling efektif untuk menghadapi turbulensi yang terjadi di luar lingkungan perusahaan. Kemampuan melakukan inovasi merupakan faktor terpenting yang akan mempengaruhi performa perusahaan. Melalui inovasi lah para manajer perusahaan menghadapi masalah dan tantangan bisnis.

Inovasi merupakan proses pengembangan produk baru, produk baru itu sendiri dan proses adopsi produk baru, yang diperoleh melalui pengintegrasian sumber daya yang dimiliki perusahaan serta usaha-usaha manajerial. Masalahnya, ternyata tidak seluruh sumber daya yang dimiliki perusahaan merupakan sumber daya yang mampu menciptakan keunggulan yang dapat mengarah pada keunggulan bersaing yang bertahan.

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Model Resource-Based View menyatakan bahwa perusahaan akan mampu memenangkan persaingan hanya jika perusahaan memiliki keunggulan bersaing yang bertahan. Untuk memiliki kemampuan bersaing yang bertahan, perusahaan perlu mengidentifikasi, menggali dan mengeksploitasi sumber daya yang memiliki kemampuan menciptakan keunggulan. Menurut Barney (1991) sumber daya yang memiliki kemampuan menciptakan keunggulan memiliki empat karakteristik, yaitu: bernilai, jarang, tidak dapat diduplikasi dan tidak memiliki substitusi. Market orientation merupakan salah satu sumber daya yang memenuhi kriteria Barney (1991). Market orientation merupakan budaya organisasi yang mengarah pada kemampuan perusahaan dalam mengidentifikasi kebutuhan konsumen, baik yang terekspresikan maupun yang tidak terekspresikan, dan bagaimana menciptakan dan menyampaikan kebutuhan tersebut. Dengan demikian, market orientation diharapkan menjadi salah satu faktor penting untuk menghasilkan product innovation.

Keywords: *Resource-Based View (RBV), market orientation, product innovation, sustainable competitive advantage.*

INTRODUCTION

The differences of performance among firms in certain industries have always been the scholar's interest (Slater & Narver, 1995; Atuahene-Gima, 1995; Narver, Slater, & MacLachlan, 2000; Calantone, Cavusgil, & Zhao, 2002; Deshpande & Farley (2004); Hult, Hurley & Knight, 2004). A key component that could explain these differences is product innovation (Narver & Slater, 1990; Smart & Conant, 1994; Calantone, et.al., 2002; Deshpande & Farley, 2004). The firm performance depends to the extent of their innovation (Hult et.al., 2004). This ability to innovate is among the most important factors that impact on firm performance (Auh & Menguc, 2005; Burns & Stalker, 1961; Hurley, Hult, 1998; Porter, 1990). It is through innovation that managers devise solutions to business problems and challenges, which provide the basis

for the survival and success of the firm well into the future (Hult et al., 2004). Innovation is the process of developing a new item, the new item itself, and the process of adopting the new item (Zaltman, Gerald, Duncan, Robert, Holbek, and Jonny, 1973). An innovation can take many forms such as a new product or service, a new production process, or a new structure or administrative system.

Product innovation is the medium for business success (Damanpour, and Evan, 1984; Damanpour, 1989; Han, Kim, and Srivastava, 1998; Hult et al., 2004; Khan and Manopichetwattana, 1989; Zahra, de Belardino, and Boxx, 1988; Verhees and Meulenber, 2004; Zaltman, Duncan, and Holbek, 1973). Product innovation is becoming increasingly important as a means of survival, not only growth (Grønhaug and Kaufmann, 1988). In the long run, product

innovation represents the most effective means to deal with the turbulence in external environments (Han et al., 1998).

There were some studies done attempted to explain factors that give raise to product innovation in the firm, however, the results mixed (Abratt & Lombard, 1993; Henard & Szymanski, 2001; Poolton & Barclay, 1998). While it is generally agreed that product innovation contributes to firm performance, relatively little is known about the drivers of product innovation, and how those drivers operate via product innovation to collectively influence performance (Hult et al., 2004).

Market orientation is one of the strategic orientations that most closely related to innovation and performance (Baker & Sinkula 1999; Calantone et al., 2002; Gatignon & Xuereb, 1997; Kohli & Jaworski, 1990; Slater & Narver, 1995; Verhees & Meulenber, 2004). Most studies on market orientation proved compelling evidence exists that market orientation has a positive effect on business performance (Kara, Spillan, & DeShields, Jr., 2005). Langerak (2003) takes a closer look at 51 studies which have addressed the relationship between market orientation and performance between 1990 and 2002. Interestingly the results show that there is no unequivocal evidence as to if and when market orientation has a positive impact on performance. There is however some unequivocal proof, although limited, on how market orientation influences performance. Based on the study done by Langerak (2003), one can conclude that there is still a gap in explaining and understanding why some firms are more successful than others. Furthermore, there were very limited if any, study done in service sector especially in Indonesian context. Therefore, more study is needed

to be done in order to understand deeply the range of factors influencing the relationship between market orientations and performance (Noble, Sinha, and Kumar, 2002) especially in Indonesian service sector. Narver and Slater (1990) suggested product innovation as a mediator that could explain better the relationship between market orientation and performance.

The resource-based view argued that competitiveness is merely a function of distinctive resources and capabilities controlled by a firm (Henri, 2005). When a firm having certain resources that are valuable, rare, inimitable and non-substitutable (Barney, 1991) and exploit them not being simultaneously exploit by other firm, the firm would have competitive advantage among other firm (Barney, 1991; Day, 1994). The problem is that, according to Barney (1991), competitive advantage is not enough for firms to survive in the long run, firms need sustained competitive advantage. Resources that are valuable, rare, inimitable, and non-substitutable lead to the achievement of sustainable competitive advantage that cannot be easily duplicated by competitors (Barney, 1991). Narver & Slater (1990) conceptualized market orientation as a culture that embedded in the organization, therefore, as a culture market orientation meets the criteria of Barney's (1991) advantage-creating resource that would lead to sustainable competitive advantage.

THE RESOURCE-BASED VIEW

Over the past 15 years, the resource-based view (RBV) of the firm on the origins of competitive advantage has become a very influential framework and one of the standard theories in the field of strategy

(Barney, Wright, & Ketchen, 2001; Hoopes, Madsen, & Walker, 2003; Henri, 2005), and recently in the field of marketing research (Day, 1994; Matear, Gray, and Garret, 2004; Santos-Vijande, Sanzo-Perez; Alvarez-Gonzalez, and Vazquez-Casielles, 2005). The RBV is based on the principle that competitiveness is a function of distinctive and valuable resources and capabilities controlled by a firm (Henri, 2005).

The RBV focuses careful attention on resources, which can be defined as "those assets that are tied semi-permanently to the firm" (Wernerfelt, 1984:173). The RBV conceptualizes firms as bundles of resources heterogeneously distributed across firms, and that resource differences persist over time (Amit & Schoemaker, 1993; Wernerfelt, 1984). By a resource is meant anything which could be thought of as a strength or weakness of a given firm. A firm's resources at a given time could be defined as those (tangible and intangible) assets which are tied semi-permanently to the firm (Barney, 1991; Fahy, 2000; Henri, 2005). The question is: "under what circumstances a resource leads to high returns over longer periods of time?" A number of researchers proposed characteristics of advantage-generating resources. Some of them are:

1. Barney (1991) proposes that advantage-creating resources must meet four conditions, namely, value, rareness, inimitability and non-substitutability.
2. Grant (1991) argues that levels of durability, transparency, transferability and replicability are important determinants.
3. Collis and Montgomery (1995) suggest that they must meet five tests, namely inimitability, durability, appropriability,

substitutability and competitive superiority.

4. Amit and Schoemaker (1993) go even further, producing a list of eight criteria: complementarity, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability, and overlap with strategic industry factors.

Resources that are valuable, rare, inimitable, and non-substitutable lead to the achievement of sustainable competitive advantage that cannot be easily duplicated by competitors (Barney, 1991).

There were a variety of labels used to describe the firm's resource set, which in turn raise a problem of nomenclature in the development of the RBV. To overcome this ambiguity, the label resources are best adopted as a general, all-embracing one. Resources, in turn, comprise three distinct sub-groups, namely tangible assets, intangible assets and capabilities (Fahy, 2000). The RBV literature has tended to favor capabilities as the most likely source of sustainable competitive advantage (Henri, 2005). Capabilities have proved more difficult to delineate and are often described as invisible assets or intermediate goods. Essentially, capabilities encompass the skills of individuals or groups as well as the organizational routines and interactions through which all the firm's resources are coordinated, such as teamwork, organizational culture and trust between management and workers (Barney, 1991; Day, 1994; Hult et al., 2002; Henri, 2005). Capabilities forge a link between resources and permit their deployment (Day, 1994). They are the organizational processes by which firms synthesize and acquire knowledge resources, and generate new application from those resources (Kogut & Zander, 1992). It

could be stated that: "the firm's processes that use resources—specifically the processes to integrate, reconfigure, gain and release resources—to match and even create market change (Fahy, 2000). Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as market emerge, collide, split, evolve, and die." (Eisenhardt & Martin, 2000, p.1107). Thus, it could be concluded that by having resources that meets the RBV criteria, the firm would be able to introduce innovations that leads to sustainable competitive advantage.

MARKET ORIENTATION

The concept of market orientation is the central element of the management philosophy based on the marketing concept (Ruekert, 1992; Webster, 1988) and is presumed to contribute to long-term profitability. Due to the apparent significant of market orientation as a measure of successful implementation of the marketing concept, empirical work on the conceptualization, and measurement of market orientation was encouraged by the Marketing Science Institute in the mid-1980s (Deshpande & Farley, 1998, 1999).

Two seminal articles, those of Narver and Slater (1990) and of Kohli and Jaworski (1990), coined the concept of market orientation in the early 1990s. Narver and Slater (1990) represent the cultural perspective on market orientation. They define market orientation as "the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business" (Narver & Slater, 1990, pg.21). They

state that market orientation consists of three behavioral components, namely:

1. Customer orientation: which involves understanding current and future customer needs in order to create superior value. This is consistent with their perception that the heart of market orientation is its customer focus. In other words, it is not only concern with the fulfillment of customer needs, but provides them with added-value through reducing costs or increasing benefits for customers;
2. Competitor orientation: involves acquiring information about existing and potential competitors, their strengths and weaknesses, and their long term capabilities in order to compete effectively;
3. Inter-functional coordination: concerns with the coordination of company resources in creating superior value for the customers, so every function is important, and play a role in customer value creation.

Continuous innovation is implicit in each of these components (Narver & Slater 1990).

Kohli and Jaworski (1990) on the other hand, represent the behavioral perspective of market orientation. They defined market orientation as the organization-wide generation of market intelligence pertaining to current and future customer needs, disseminating of the intelligence across departments, and organization-wide responsiveness to it.

1. Intelligence generation is viewed by Kohli and Jaworski (1990) as the beginning of market orientation. They argued that it is wider than consumers'

verbalized needs as it includes the analysis of external factors which influence consumers' needs. Intelligence generation refers to the collection and assessment of expressed and latent needs and wants of both current and potential customers, and competitors and other market actors.

Intelligence dissemination refers to what Kohli and Jaworski (1990) see as the need to communicate, disseminate, and even sell market intelligence. It is a dynamic two-way process involving lateral and horizontal free communication (Harris & Piercy, 1999) in which all of the valuable information regarding the customers wants and needs permeate all of the organization functions.

Responsiveness refers to the ability of the organization to react to generated and disseminated information. Responsiveness is divided into two types of activity, namely, response design (i.e. using market intelligence to develop plans), and response implementation (i.e. executing such plans).

Kohli and Jaworski (1990) introduced market intelligence rather than customer focus as the central element of market orientation because in their view market intelligence is a much wider concept than customer focus: "It includes consideration of exogenous market factors that affect customer needs and preferences and current as well as future needs of customers" (Kohli & Jaworski, 1990, p. 3). Although many other studies about market orientation have been reported, most authors either adopt the definition of Kohli and Jaworski or of Narver and Slater (Atuahene-Gima 1996;

Pelham and Wilson 1996) or use them as a starting point (Deng and Dart 1994).

In this conceptual paper, Narver and Slater definition of market orientation is used: "Market orientation is the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for customers and, thus continuous superior performance for the business. Market orientation consists of three behavioral components (customer orientation, competitor orientation, and interfunctional coordination) and two decision criteria (long-term focus and profitability) (Narver & Slater, 1990, pg.22). Although several viable market orientation frameworks exist (e.g., Deshpandé, Farley & Webster, 1993; Kohli & Jaworski, 1990), this research adopt the conceptualization of Narver and Slater for its focus on organizational culture which is in line with this research. Furthermore, the dimensions of their framework correspond with the elements of culture, namely customer orientation, competitor orientation, and inter-functional coordination. These dimensions of a market orientation thus become part of an organization's cultural competitiveness (Hult et al., 2002).

A market-driven organization is one that places a high priority on creating value for existing and potential customers (Day, 1994). Firms with a market-oriented culture develop capabilities in market intelligence, and their strategies are responsive to information gleaned from customers and other external stakeholders. Those firms also develop the ability to coordinate internal processes so that they can act quickly and effectively (Day, 1994; Narver & Slater, 1990).

Some studies of market orientation in services sector reveals that market orientation has positive influence on business performance. The most evident conclusion is that to be market-oriented improves the results of service firms. This argument can be clearly stated for service firms (Naidu & Narayana, 1991; Caruana, Pitt, and Berthon., 1999; Wood, Bhuian, and Kicker., 2000), as well as for the remaining sectors or industries. It is applicable to large firms (Jaworski & Kohli, 1993; Day & Nedungadi, 1994), small firms (Pelham & Wilson, 1996), lucrative (Slater & Narver, 1994) and non-lucrative business (Wrenn, Latour, and Calder, 1994). Services firms adopting market orientation obtain important advantages in internal organization as well, apart from the external market profits that can be put down to orientation (Esteban, Millan, Molina, and Martin-Cossuegra., 2002). However, study done by Au & Tse (1995) found that market orientation was negatively correlated with service performance in a period of economic prosperity when demand was so strong that firms might be profitable without having to spend heavily on market-oriented activities. But in recessions or during periods of economic downturn, market orientation becomes a deciding factor on its survival and profitability, because the market is considerably smaller and customers more carefully differentiate between the values of competing service firms before making a final decision (Au & Tse, 1995). However, this result does not mean that market orientation is completely useless to a firm when economic environment is favorable. It seems that firm should adopt market orientation as a business strategy even when the economy is prosperous to foster its relationship with customers, which becomes an asset when the economy deteriorates (Tse, Sin, Yim &

Heung, 2005). A firm must save for rainy days when customers are abundant; thus, in times of hardship, it has the support of a loyal customer base to enable it to sail through difficult times.

Market-oriented service firms have mainly focused on satisfying expressed needs of the customer, typically by using verbal techniques such as focus groups and customer surveys, to gain understanding of the use of current services (Slater, 2001). The most common scales of market orientation are those by Kohli et al. (1993) and Narver & Slater (1990). Oczkowski & Farrel (1998) conclude that after careful mathematical and statistical analysis, that Narver & Slater's (1990) scale is superior in many ways. Furthermore, Powpaka (2006) studying service firms in Thailand found that Narver & Slater's (1990) scale to be both reliable and valid, and thus can be used for future research in non-Western countries or in transition economies as well.

Product Innovation

Product innovation is the ability of the organization to adopt or implement new ideas, processes, or products successfully (Cohen and Levinthal, 1990; Hurley and Hult, 1998;). Damanpour, (1991); Hurley & Hult., (1998), defined product innovation as the capacity to introduce of some new process, product, or idea in the organization. An innovation can be a new product or service, a new production process, or a new structure or administrative system. Certain types of innovations such as administrative innovations that improve internal operations may have no direct or immediate impact on the marketplace (Han et al, 1998).

According to Zaltman et al. (1973) and Rogers (1983), product innovation is an idea, practice, or material artifact perceived as new by the relevant unit of adoption. Amabile, Conti, Coon, and Herron. (1996) define product innovation as the successful implementation of creative ideas within an organization. The innovation process involves the acquisition, dissemination, and use of new knowledge (Damanpour, 1991; Johnson, Meyer, Berkowitz, Ethington, and Miller, 1997; Moorman and Miner, 1998; Verona, 1999).

Organizations without the capacity to innovate may invest time and resources in studying markets but are unable to translate this knowledge into practice. The adoption of product innovation is generally intended to contribute to the performance or effectiveness here as the achievement of organizational goals related to profitability and growth in sales and markets share, as well as the accomplishment of general firm strategic objectives. The resource-based view (Wernerfelt, 1984) helps to explain how firms derive competitive advantages by channeling resources into the development of new products, processes, and so forth.

Product innovation is a means for changing an organization, whether as a response to changes occur in its internal or external environment or as a preemptive move taken to influence an environment. Because environments evolve, firms must adopt innovations over time and the most important innovations are those that allow the firm to achieve some sort of competitive advantage, thereby contributing to its performance (e.g., Damanpour, 1991; Henard & Szymanski, 2001; Porter, 1990).

FRAMEWORK AND PROPOSITIONS

Based on the literature review of the market orientation and innovation, an integrated research framework has been developed to capture and explain the relationship between market orientation, innovation, and performance in Indonesian service sector. The variable of primary interest in this study is performance, the variance of which is attempted to explain by market orientation and innovation. The basic idea of this framework is that market orientation is the main driver of innovation, while innovation is the main driver of performance.

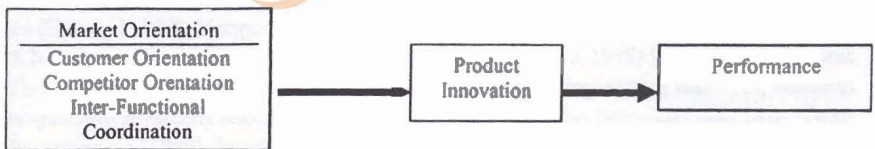


Figure 1

Market Orientation and Product Innovation

A business must be innovative in:

1. Its approach to learning about and tracking customer needs;
2. The development of new products or services that address those needs, and
3. The development and implementation of internal processes that enhance customer learning or product development (Narver et al., 2000).

A market orientation is the foundation for a business's innovation efforts. Thus, in general, whatever its value discipline(s)—product leadership, customer intimacy, or operational excellence (Treacy and Wiersema 1993)—a business attains and sustains leadership in its target markets only by superior execution in understanding and meeting customers' needs.

Hurley and Hult (1998) and Han et al. (1998) argue that there is complementarities between market orientation and innovation. With respect to reactive market orientation there are numerous examples of businesses being very innovative in their efforts to satisfy customers' expressed needs.

Several studies (e.g., Jaworski & Kohli 1993; Narver & Slater 1990) indicate that market-driven businesses create products that transform market needs. Deshpandé, Farley, and Webster (1993), and Kohli and Jaworski (1990) suggest that market-oriented behavior yields superior innovation and greater new product success. Slater and Narver (1994), extended this view, and concluded that businesses with a strong market orientation are best situated for new product success, no matter what the business environment. Surprisingly few studies (Han et al., 1998; Morgan, 2004; Verhees & Meulenber, 2004; Zhou, Gao, Yang, and Zhou., 2004) have addressed this issue empirically. In an early attempt, Lawton and Parasuraman (1980) found no significant relationship between implementation of the marketing concept and product innovation. They acknowledged a need for alternative measurement.

Atuahene-Gima (1996) reported a significant relationship between product innovation and market orientation. Characterizations of market orientation e.g., Kohli

& Jaworski 1990; Narver & Slater 1990) and product innovation (e.g., Gatignon & Xuereb 1997; Olson, Walker, & Ruekert 1995) have become very rich in the strategic marketing literature. From the discussion above, it could be proposed that:

P1: The higher the firm's market orientation, the higher the firm's product innovation.

P1a: The higher the firm's customer orientation, the higher the firm's product innovation.

P1b: The higher the firm's competitor orientation, the higher the firm's product innovation.

P1c: The higher the firm's inter-functional coordination, the higher the firm's product innovation.

Product Innovation and Performance

The impact of product innovation on performance and on economic growth has been of interest to economists for decades (Schumpeter, 1934). Marketing has also been interested in product innovation for some time. In one of his most-cited passages, Drucker (1954 as cited in Han, Kim & Srivastava, 1998) linked innovativeness and marketing, stating that ". . . , business enterprise has two—and only two—functions: marketing and innovation. . .". Innovation has been linked empirically to performance in the US (Capon, Farley, Hulbert, and Lehmann, 1992) and in China (Deshpande and Farley, 2001; Deshpande and Farley, 2004).

Much of the firm's product innovation hinges on the extent to which managers acquire and act on market intelligence. Or-

ganizations that act are responsive to markets. Organizations without the capacity to innovate may invest time and resources in studying markets but are unable to translate this knowledge into practice. The adoption of product innovation is generally intended to contribute to the performance or effectiveness of the firm (Damanpour, 1991). Performance is defined here as the achievement of organizational goals related to profitability and growth in sales and markets share, as well as the accomplishment of general firm strategic objectives. The resource-based view (Wernerfelt, 1984) helps to explain how firms derive competitive advantages by channeling resources into the development of new products, processes, and so forth. Product innovation is a means for changing an organization, whether as a response to changes that occurs in its internal or external environment or as a preemptive move taken to influence an environment. Because environments evolve, firms must adopt innovations over time and the most important innovations are those that allow the firm to achieve some sort of competitive advantage, thereby contributing to its performance (e.g., Damanpour, 1991; Henard & Szymanski, 2001; Porter, 1990). Thus it could be proposed that:

P2: The higher the firm's product innovation, the higher the firm's performance.

Product Innovation and Market Orientation-Performance Relationship

There are an increasing number of studies aim to understand more the effect of culture on organizational performance (Han et al. 1998; Kohli and Jaworski, 1990; Narver

and Slater, 1990; Slater and Narver 1994). In this study, market orientation defined as culture. Culture reflects norms, values, and beliefs that reinforce behaviors related to performance (Hult et al., 2004). Market orientation occurs at culture level of the firm and is likely to be mediated by factors that impact directly on performance (Hult et al., 2004). Some scholars suggested innovation could be one of the factors that could better explain the relationship between culture and performance (Narver and Slater 1990; Han et al., 1998; Hult et al., 2004; Verhees and Meulenberg 2004).

Product innovation is an important function of management because it is linked to performance and many studies has been supported this with the findings that there is a positive and direct relationship exists between product innovation and performance (Han et al., 1998). Hult et al. (2004) argued that product innovation is a means for changing an organization, whether as a response to changes that occurs in its internal or external environment or as a preemptive move taken to influence an environment. Environment evolve, therefore firms must adopt product innovation over time and the most important innovations are those that allow the firm to achieve some sort of competitive advantage, thereby contributing to its performance (Hult et al 2004; Damanpour 1991). Thus it could be proposed that:

P3: Product innovation mediates the relationship between market orientation and performance.

P3a: Product innovation mediates the relationship between customer orientation and performance.

P3b: Product innovation mediates the relationship between competitor orientation and performance.

P3c: Product innovation mediates the relationship between inter-functional coordination and performance.

CONCLUSION

The resource-based view of the firm on the origins of competitive advantage recently has become a very influential framework and one of the standard theories in the field of marketing research, directed to explain the differences of performance among firms in certain industries. According to the resource-based view, the differences of performance among firms determined by the advantage-creating resources a firm have.

The possession of advantage-creating resources could lead to the creation of value. If the firm could create value better than its competitors, the firm would have competitive advantage. As long as other firms in the industry could not duplicate it, the firm would have sustainable competitive advantage.

Product innovation is about the creation of value to the customer. Product innovation is the medium for business success. Product innovation is becoming increasingly important as a means of growth, not only survival. In the long run, product innovation represents the most effective means to deal with the turbulence in external environments. This ability to innovate is among the most important factors that impact on firm performance.

The concept of market orientation is the central element of the management philosophy based on the marketing concept and is presumed to contribute to long-term profitability. Market Orientation is one of the resources that meet Barney's (1991) criteria of advantage-creating resource. As an organizational culture, market orientation leads to firm's capability in identifying customer current needs as well as latent needs, and how to best deliver those needs. Market orientation is the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business. Therefore, market orientation is expected to be one of the most important drivers of product innovation.

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