

THE RELATIONSHIP BETWEEN THE INNOVATION ORIENTATION AND ORGANIZATIONS' PERFORMANCE IN ROMANIA

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Abstract: The purpose of this research is to contribute to the conceptual understanding of innovation orientation and to inquire the relationship between the innovation orientation and the firm's performance. The empirical data was obtained from top executives of 106 companies activating in Romania. It has been empirically proven that there is a direct, strong and positive link between the innovation orientation and market and financial performance.

Keywords: innovation, innovation orientation, firm performance, innovation in Romania, market orientation, innovation orientation in Romania

JEL Classification: L25, M31, O32

Introduction

Innovation is one of the most important and current problem of organizations and also a broad topic addressed in several disciplines such as marketing, quality management, operational management, technology management, organizational behavior, product development, strategic management and economics (Hauser, Tellis, Griffin, 2006).

Carr (1999) considers that firms innovate on many levels such as those related to business models, products, services, processes and distribution channels in order to maintain or conquer new markets, distance themselves from competitors

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and ensure long-term survival and growth, particularly in the context of being present in highly complex and turbulent environments (Freeman, 1994; Lawless and Anderson, 1996).

In the innovation literature (Freeman, 1994; Miles and Snow, 1978; Van de Ven et al., 1999) great emphasis has been put on innovation typology and the dissemination of it. However, the organizational innovation process has not been taken into consideration and nor treated as a permanent and major objective of organizations.

With regards to this, Tushman (1997) claims that innovation itself is not necessarily the key to long term success of companies. Instead, a company's success is based on the Innovation orientation at a more global level within the company. This orientation produces the continuous innovation capabilities with multiple effects on the performance of the organization both internally and externally.

Defining the innovation orientation

Manu (1992) defined the innovation orientation as being the sum of all innovation programs within an organization. He also states that this type of orientation has a strategic nature because it gives companies a new guideline to approach the market.

Manu and Syria (1996) conceptualized the innovation orientation. They defined it as a multi-component construct containing the introduction of new products, the research and development expenses and the market entry order.

Amabile (1997) is convinced that the most important elements of focusing on innovation are the value attached to creativity and innovation in general, an orientation towards risk, a sense of pride among organization members, their enthusiasm about what they can do and an offensive strategy of commitment of the future.

Berthon, Hulber and Pitt (1999) define the Innovation orientation as related to those companies who devote their energies to inventing and perfecting of superior products. This conceptualization incorporates both approaches to innovation orientation - the openness to innovation (Zaltman, Duncan and Holbek, 1973) and innovation capability (Burns and Stalker, 1977).

Worren, Moore and Cardona (2002) define the Innovation orientation as a link between product modularity and the strategic intent of an organization to develop new products or enter new markets with existing products.

Siguaw, Simpson and Enz (2006) analyzed the literature of the past 35 years on Innovation and proposed a synthetic definition of the concept.

Given the broader scope of innovation and the increasing complexity due to the deepening conceptual basis, almost 10 years after the first definition of the orientation, the authors state that the typology proposed by Manu and Syria fails to consider both beliefs or culture organizational structure or the organization of knowledge that could promote or inhibit the innovation of a company.

In an attempt to bring together and complete the conceptual shortcomings of the literature and the lack of consensus, Siguaw, Simpson and Enz (2006) define the innovation orientation as a multi-dimensional structure composed of knowledge learning philosophy, strategic direction and trans- functional beliefs of a company that guides and directs all actions and organizational strategies, including also those embedded in formal and informal behaviors, skills and business processes to promote innovative thinking and facilitate the development, evolution and implementation of innovations.

By this definition, the innovation orientation is a set of understandings about innovation made within the structure of the firm knowledge that influence organizational activities, but not a specific set of normative behavior (Siguaw, Simpson and Enz, 2006). The definition of Siguaw, Simpson and Enz (2006), assumes the same set of principles for all organizations but different implementation formulas specific to each of them.

The approach proposed by Siguaw, Simopson and Enz (2006) separates organizational beliefs from effective actions by considering the innovation orientation as rather a structure of knowledge than an organizational culture or an amalgam of rules and behaviors. In this expansive approach, the knowledge capital of an organization is constantly enriched for identifying the next steps for maintaining the innovation (Martin and Salomon, 2003).

The focus on innovation, according to the formula proposed by the three authors, has academic support that comes from emerging research studies suggesting the importance of collective agreements which direct or guide an organization and its employees having the purpose to involve them in activities designed to encourage, value and reward innovation efforts (Damanpour, 1991; Schlegelmilch, Diamantopoulos and Kreuz, 2003; Siguaw, Simopson and Enz, 2006). The innovation orientation is a real source of competitive advantage, primarily due to organizational knowledge development and strategic intentions directing functional skills such as human resources, marketing and operations (Siguaw, Simpson and Enz, 2006).

Chen and Huang (2009) have defined Innovation orientation inspired by the existing literature. They state that the innovation orientation refers to an organization openness to new ideas (as part of the organizational culture as pointed Hurley and Hult, 1998) and to the propensity for change by adopting new technologies, resources, skills and administrative systems (Zhou *et al.*, 2005). The innovation orientation is consisting both innovation openness (Zaltman, Duncan and Holbek, 1973) and as well as the ability to innovate (Burns and Stalker, 1977). The innovation openness is a critical component of the innovation process being the degree of the willing of an organization for adopting new ideas. (Berthon, Pitt and Hulbert, 1999; Zaltman, Duncan, and Holbek, 1973; Chen and Huang, 2009. The ability to innovate is the ability for organizations to introduce new processes, products or ideas (Hult, Hurley and Knight, 2004).

It is important to mention that the innovation literature underlines that innovation orientation is approached closely with market orientation. Concerning this, Jaworski and Kohli (1996), two authors known for conceptualizing and studying market orientation, said that innovation was wrongly excluded from the market-oriented models, it is actually a result of this orientation. Similarly, Han *et al.* (1998) stated that literature has only recently begun to study the effects of market orientation on innovation. However, market-oriented companies tend to be more innovative because they respond quickly to the dynamic needs of consumers (Narver and Slater, 1990). Narver and Slater (1994) suggests that organizations that are better market-oriented are better suited to anticipate consumer needs and to respond with innovative products.

An empirical study conducted by Deshpande, Farley and Webster (1997) on comparative performance of the market of some companies from United Kingdom, France, Germany, Japan and the United States concludes that the effects of innovation orientation on performance is more important than those of market orientation.

Operationalization of the innovation orientation

Over time, the concept of innovation orientation was operationalized in various ways. Except Cooper's (1984) study, Manu (1992) suggests that all research in this area focused on analyzing the orientation as construct containing a single variable. These were based on factors such as time of market entry, the rate of introducing new products or on the response to competitors' innovative efforts.

Even Cooper's study (1984) ignored the issue of the moment of market entry, which can have major implications for the competitive effects and the cost of innovation.

This operationalization did not take into account the possible interactions between different aspects of innovation or the broad meaning of what innovativeness means.

This view refers to products, markets, processes, technologies and entry into new markets but also on the effort behind these actions.

To fully understand the concept of innovation orientation it is important to investigate it at all its dimensions. In line with our statement, Manu (1992) believes that studying a single dimension of this guidance may ignore other important dimensions.

The conceptualization of Manu (1992) is also confirmed by Dobni (2010) which states that the innovation orientation must be operationalized in a multi-dimensional context. This context includes the intention of being innovative, the infrastructure to support innovation, operational level behaviors necessary to influence the orientation toward value/market and necessary environment needed for innovation support.

A summary of operational focus on innovation is presented in Table 1.

Table 1. The operationalization of innovation orientation

Author	Concepts	Comments
Manu (1992)	<ul style="list-style-type: none"> ● Order Market Entry ● New products ● R&D expenses 	The innovation orientation is operationalized using three constructs, considering both the actions and results of the organization. The stress is laid on internationalization and environment as an antecedent of orientation.
Berthonet al. (2002)	<ul style="list-style-type: none"> ● Isolation ● Track ● Training ● Interaction 	The innovation orientation is operationalized on the basis of strategic archetypes measured on a scale called ICON (Innovation - Consumer). The authors consider that the evaluation should be closely linked with consumer orientation and view antecedent environment organization as important in defining the strategic direction and strategy.

Author	Concepts	Comments
Siguaw et al. (2006)	<ul style="list-style-type: none"> ● Learning philosophy ● Strategic direction ● Cross-functional acclimatization 	The innovation orientation is operationalized based on a multidimensional construct. The action of innovation are results not part of the innovation orientation, which contradicts the initial statement of Manu (1992).
Bouncken et al. (2007)	<p>Company's inclination towards:</p> <ul style="list-style-type: none"> ● Encouraging individual and organizational creativity, ● Continuous search of new product concepts, ● Product improvement and continuous development, ● improvement of creativity by developing internal incubators of ideas ● rapid deployment and cross-functional innovation; ● Horizontal and vertical participation of all employees in the development of new ideas 	The construct is inspired by the idea of the organization propensity for vertical and horizontal exchange of new ideas.
Chen and Huang (2009)	<ul style="list-style-type: none"> ● Opening towards innovation ● Capacity to innovate 	Innovation orientation refers to an organization openness to new ideas as part of the organization's culture and propensity for change by adopting new technologies, resources, skills and administrative systems.
Zhou (2009)	<ul style="list-style-type: none"> ● Investing in Innovation ● Innovation promotion ● Encouraging innovative thinking 	A restricted purpose had been given to this approach in opposition to Siguaw et al. (2006): the intention to innovate.
Dobni (2010)	<ul style="list-style-type: none"> ● Intention ● Infrastructure ● Influence ● Implementation 	The innovation orientation signifies more than behaviors and actions. It refers to the intention to innovate and the ability to introduce new products, services, processes and systems that bring added value to the organization. A critical component of the innovation is the cultural openness to innovate.

Author	Concepts	Comments
Cheung et al. (2010)	<ul style="list-style-type: none"> ● Acceptance of new ideas ● Encourage new ideas ● Allocation of resources to implement new ideas 	The innovation orientation is part of the culture.
Talke et al. (2011)	<p>The approach of innovation orientation from a strategic perspective based on:</p> <ul style="list-style-type: none"> ● proactive market orientation ● proactive technology orientation 	The strategic innovation orientation gives guidance and direction, collectively leading to lasting competitive advantages. This guidance reflects the organizational philosophy based on a set of values and beliefs that guide innovation activity across the organization.
Engelen et al. (2014)	<ul style="list-style-type: none"> ● Learning Philosophy ● Strategic direction ● Cross-functional acclimatization 	Based on Siguaw et al. (2006) operationalization.

Source: own research.

There are only a few studies in the vast literature that discussed the issue of innovation and operationalized the concept of innovation orientation. Manu (1992) and later Manu and Syria (1996) are the first to use the term, as they conceptualize it as simple construct formed by introducing multiple new products, R&D spending and new market entry. This approach fails to consider the structure of beliefs and knowledge that can inhibit or promote the innovation of organizations.

In agreement with Siguaw et al. (2006), the innovation orientation is often defined and operationalized in terms of innovation results, usually as new products and processes results. Although the desired results are the focus of innovations, they do not define the orientation. The innovation orientation guides the strategy of a company, the learning and the functional interactions that result in innovation.

The innovation orientation and firm's' performance

The review of the literature revealed a diverse range of links between different aspects of focusing on innovation and marketing strategies, costs and performance, and links related to organizational environment.

Table 2. Summary of the innovation orientation relationships with financial and marketing performance

Author	Research topic
Manu (1992)	Innovation orientation, the environment and the performance of organizations - differences between the US and Europe.
Manu and Syria (1996)	How the relationship between innovativeness and market performance is moderated with the marketing strategy and environment of organizations.
Hult and Hurley (1998)	Incorporating the concept of innovation construct into the market orientation concept and its impact on market performance.
Hult, Hurley, Knight (2003)	Innovation: history and its impact on business performance of organizations.
Jaakkola, Parvinen, Moller (2007)	The impact of business orientation on the marketing performance of firms.
O'Cass Ngo (2006)	The impact of innovation orientation on brand performance.
Jimenez-Jimenez, Valley, (2008)	The role of market orientation on organizational learning on organizations performance.
Damanpour, Walker and Avellaneda (2009)	The impact of different types of innovation on organizational performance of firms in the services sector.
Human, Naude (2009)	The impact of innovation orientation on the market performance of the B2B organizations.
Peng Dai (2010)	Positive and negative aspects of innovation orientation
Rosenbusch, Brinckmann, Bausch (2011)	The relationship analysis between innovativeness and performance for small and medium enterprises.

Source: own research.

Hypothesis

The innovation orientation and its relation to the performance of companies is a present topic of research in the literature regarding innovation. (Capon et al., 1990; Deshpande et al., 1993; Deshpande et al., 1997; Manu, 1992, Manu and Sriram, 1996; Simpson et al., 2006; Zhou et al., 2005; Jaakkola et al. 2008; Chen et al., 2009; Human et al., 2010). These studies have revealed a link between innovation-oriented companies and performance. So, in the local context, we intend to examine the following hypothesis:

H1: There is a direct and positive correlation between Innovation orientation (OI) and the performance of companies in Romania.

Methodology

A database of 600 companies operating in Romania in the services domain was used. This database has been provided by Kompass. The general directors of these companies received a letter of participation together with the explanation of the objectives, benefits and Privacy Policy research.

To increase the response rate, the respondents were also contacted by phone. 106 questionnaires have been completed leading to a response rate of 17.66%. The sample size and response rate are comparable to those obtained in similar surveys (Avlonitis et al., 1999). The selected companies were operating in FMCG industry (21.7%), banking and financial investments (10.38%) and other services (41.17%).

The focus on innovation was measured on a Likert scale from 1 to 5. This methodology was proposed by Dobni (2010) and had the following dimensions: the context of implementation, organizational constituency, organizational learning, the propensity to innovate, value orientation and creativity and empowerment of employees.

The size of market orientation was measured using the methodology proposed by Ledwith, O'Dwyer (2009) for customer orientation and Langerak (2010) for competitors and coordination-functional orientation.

Performance was measured based on the organizational model used by Vorhies et al. (2005) which contains three dimensions: customer satisfaction, efficiency and profitability of the current market.

The concept of innovation orientation is presented as a multidimensional construct having 7 dimensions. The statistical analysis of the results indicates a Cronbach Alpha reliability coefficient of 0.908. This demonstrates a very good reliability of the scale used to measure the construct. Based on data analysis we can conclude that it is not necessary to remove any of the dimensions. In this case, statistical analysis can proceed with the 6 dimensions initially presented.

All 6 loaded factors results are large enough (the minimum is 0.546) to conclude that variation in size is significant. In conclusion, factor analysis gives us the support necessary to conclude that the analyzed dimensions, taken together constitute a single construct, called Innovation orientation (OI).

In this paper, the discriminant validity of the constructs was measured by Pearson correlation coefficient.

Analysis of the results shows that, in most of the cases, the Pearson coefficient takes the maxim value for the analysed variable related to its containing construct. Each of these correlations was significant and statistically at a significance level of $p = 0.000$ with a few exceptions where the Pearson correlation coefficient has a similar correlation to construct. These exceptions, however, do not prevent us to conclude that all constructs included in the research model have a relatively high level of discriminant validity.

In conclusion, all constructs of the model were valid because research shows both convergent validity and discriminant validity.

According to Cortina (1993), given that the scales of used to measure constructs are reliable and the constructs are validated; testing the validity of the model assumptions and research is sustained. The hypothesis testing was done through SPSS software using a linear regression function.

Results

Based on the results presented in the table 3, the hypothesis is supported. The acceptance is consistent with the results of other empirical research that was referred to earlier in this paper. The standardized regression coefficient function has the value $B = 0.693$. Therefore, we conclude that between the innovation and performance orientation there is a direct relationship, positive and significant.

The value of the correlation coefficient $R = 0.693$ indicates a linear relationship between high intensity innovation orientation (as the independent variable) and market performance (the dependent variable). The coefficient of determination R^2 shows that a high percentage (48%) of the variation is explained by this construct.

Table 3. The results of testing the H1

Hypothesis	Standardized coefficient of regression function B	t value statistics	Level of significance p	Result
H1: There is a direct and positive correlation between Innovation orientation (OI) and the performance of companies in Romania.	0.693	9.794	0.000	Accepted

Source: own calculations.

Discussion, implication and future research directions

We have demonstrated that there is a direct, positive and strong link between Innovation orientation and market and financial performance of companies operating in Romania. This conclusion is particularly relevant for executives of leading companies operating in the Romanian market, especially in areas where innovation is the key competitive advantage.

The research has several limitations. First, the sample size is relatively small to allow industry level analysis. Secondly we assessed the relationship between innovation and performance orientation investigating a linear relationship between its main constructs. In the future we can also analyze non-linear relations not only in the main constructs but also in the size of their components.

Appendix (SPSS analysis results)

Descriptive Statistics			
	Mean	Std. Deviation	N
Performanta	3.7045	.72222	106
OI	3.8951	.50070	106

Correlations			
		Performanta	OI
Pearson Correlation	Performanta	1.000	.693
	OI	.693	1.000
Sig. (1-tailed)	Performanta	.	.000
	OI	.000	.
N	Performanta	106	106
	OI	106	106

Model Summary								
R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
				R Square Change	F Change	df1	df2	Sig. F Change
.693 ^a	.480	.475	.52340	.480	95.924	1	104	.000

a. Predictors: (Constant), OI

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.278	1	26.278	95.924	.000 ^b
	Residual	28.491	104	.274		
	Total	54.769	105			
a. Dependent Variable: Performanta						
b. Predictors: (Constant), OI						

Collinearity Diagnostics ^a					
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	OI
1	1	1.992	1.000	.00	.00
	2	.008	15.696	1.00	1.00
a. Dependent Variable: Performanta					

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