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Strategic innovation- and customer- orientation: An examination in the context of business environment and organizational structure

Positive business performance effects of customer orientation and innovation orientation are widely recognized. However, these two are, to some extent, conflicting and mutually exclusive. Many scholars have warned that too much innovation orientation results in forgetting customer needs. This, in turn, results in unprofitable business performance. Respectively, other scholars have argued that following customer needs may augment inertia and inhibit radical innovation.

In this paper, I investigate how Finnish technology companies are oriented towards customers and innovation. Customer- and innovation orientations are categorized in four distinct strategies following the procedure of Berthon et al. (2004). These four strategies are

then analyzed in technological environments of varying level of turbulence and uncertainty. Furthermore, I study whether there are organizational structures that are characteristic of different strategic orientations. Questionnaires were sent to 354 companies and the final sample for the analysis numbered 130 companies.

Customer-oriented Follow -strategy turned out to be effective in stable environments. Typical of Follow -oriented companies are the absence of formalism and the low level of hierarchy. Innovation oriented Shape -strategy can be seen as supplementary to Follow -strategy. For example, it was found that the Follow -strategy drives incremental innovation and inhibits radical innovation, whereas the Shape -strategy has exactly the opposite effect. Shape -strategy is particularly fitting in turbulent environments. It was found that the environmental turbulence is not as harmful for companies that emphasize Shape -strategy as it is for other companies. Characteristics of Shape -oriented organizations are strong horizontal integration, highly defined roles of employees, and networked or centralized R&D.

Companies that follow the Isolate -strategy do not emphasize innovation- or customer orientation. Rather, their strategy is cost-efficiency and operational excellence. This study did not reveal any link between the performance of Isolate -strategy and environmental uncertainty. However, several correlations were observed between the Isolate -strategy and mechanistic organizational structures. Interact -strategy was expected to incorporate high level of customer orientation to high level of innovation orientation. Conversely, the Interact -strategy turned out to be unfeasible in both orientations. Nonetheless, innovation- and customer orientation seemed to be, like in many earlier

studies, the key stimulants of business performance. During different phase of their lifecycles companies should be able to employ them both.

Key words: innovation, customer orientation, strategic management, development strategies, product development ■