Transforming Organisations for Sustained Innovation

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“Market-oriented” firms are better able to innovate consistently, but getting there requires complex and demanding organisational change.

Seeing a self-contained innovation project through to completion is difficult enough for companies. Thriving in a disruption-defined business climate can be even more complicated. To meet the challenge, firms need to put in place internal innovation processes that will function over the long term. Because no competitive advantage lasts forever, sustained growth and continued high performance require a constant effort to innovate.

My forthcoming book ***Making Innovation Last*** (co-authored with David Gotteland and Christophe Haon of Grenoble Ecole de Management, France) synthesises a vast body of research straddling several business disciplines to help leaders better understand what a culture of innovation should look like and the internal conditions that are likely to encourage sustained innovation.

Organisational leaders can start by looking at the effect their firm's overall *strategic orientation* (the priorities and principles that guide strategy formulation) has upon the organisation's innovative capabilities. *Market orientation* in particular has been positively associated with both innovativeness and financial performance. We theorise that much of the performance-enhancing power of market orientation ultimately flows from its beneficial impact on innovativeness.

What is market orientation?

Market-oriented firms put the customer at centre stage. Or as Peter Drucker, the founder of modern management, noted, "the business [is] seen from the point of view of the final result, that is, from the customer's point of view."

Needless to say, there are many more organisations that pay lip service to this idea than there are genuinely market-oriented organisations. A company cannot claim to be market oriented unless it has internalised what **one study** calls "a distinct organisational culture, a fundamental shared set of beliefs and values that put the customer in the center of the firm's thinking about strategy and operations." Scholars agree that the conversion to market orientation requires, first and foremost, a cultural change within the business.

What impacts market orientation

Upon consolidation of prior research, a 2005 study identified **three main drivers** of market orientation. One of these is top management emphasis; the idea that where the most powerful decision-makers go, so goes the organisation.

A second driver is the extent to which members from different departments interact, either formally or informally, to share expertise and information. And thirdly, the implementation of market-based reward systems and market-oriented training programmes to ensure commitment on the frontlines.

Interestingly, the same study also found that the relationship between market orientation and increased performance is stronger for manufacturing firms than for service firms. This isn't to say that service firms don't benefit from market orientation - quite the opposite. In fact, the authors concluded that market orientation is a matter of survival for service firms, while for manufacturers it constitutes a “success-inducing approach”.

Cultural context also matters here. Research shows that the impact of market orientation on new product performance is greater for firms in countries with **high individualism**, that is, “the degree to which people in a country prefer to act as individuals rather than as members of a group” and high power distance, the degree to which social inequalities such as wealth, status, and power are acceptable in a society.

Spearheading organisational change

Implementing market orientation within the firm requires the integration of market-oriented values with other defining values - in other words, a process of organisational change. One study, which followed a **group of firms over time**, identified four stages to this process:

1. Initiation of a change plan – Whereby a powerful organisational stakeholder (or stakeholders) recognise a financial threat and begin a process of transformation. The critical factor for success at this stage is the creation of a “guiding coalition” whose members all believe in the importance of a market orientation and are firmly committed to engaging the entire organisation in the change effort.

2. Implementation of the plan – This stage comprises five major actions: 1) Clear communication of the change plan to the entire organisation; 2) the development of a new set of core organisational values reflecting the shift to a market orientation; 3) Reconnection with the market by sending cross-functional teams to meet with customers, channels, and influencers; 4) Removal of dissenters and hiring of believers; and 5) Achieving a collaborative approach to strategy implementation and execution.

3. Institutionalisation – Organisations must then change in concrete and fundamental ways to lock in the new market orientation. This may include restructuring of rewards and incentives within the company, the introduction of cultural training programmes for new hires, and the gradual transferral of power from the “guiding coalition” to all organisation members.

4. Maintenance – Once the change has been made organisations need to put a series of measures in place to prevent backsliding. This may include changing the recruiting process, devising strategies and timetables for continuing market engagement, and appointing “cultural flame keepers” to

ensure that future changes to the organisation do not damage its market-oriented culture.

The final analysis

Becoming more market oriented cannot be the outcome of an isolated management decision. It is a process in which managers have a key role to play. This process implies the development of a new organisational culture and the translation of the corresponding norms into new behaviours. This deep transformation process requires time and effort. Of course, all this labour could be in vain if inertia is allowed to set in. Even after the change process is concluded, managers must remember to incentivise market-oriented behaviours to maximise the chance of success. Also, like any new-built structure, a market-oriented transformation must be maintained over time to avoid risking collapse.

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