

Customer Orientation Drives Environmental Innovation



By **Hubert Gatignon**, INSEAD Emeritus Professor of Marketing

Firms adopting environmental management practices are customer-oriented.

The capacity for a firm to innovate often depends on how customer oriented it is. As I show in a research paper **published back in 1997** this dynamic leads to better products and easier marketing, thereby achieving strong performance. As I've shown and researched **more recently**, going one step further and asking customers to take part in the innovation process can also increase the likelihood of the successful debut of an innovation.

Customers increasingly like being included in the development of firms and their products, but these days there is a sustainability dimension to this inclusion. Customers feel a responsibility to make sustainable decisions when it comes to their relationships with firms and what they buy from them. Several studies have shown that customers are willing to pay a premium for

environmental benefits, while they also take the firm's socially responsible activities into account when making purchase decisions.

As I show in my [latest research paper](#), in the *Journal of Business & Industrial Marketing*, the extent to which companies orient themselves around these customers contributes to their adoption of environmental management practices and hence their capacity for environmental innovation. Customer-oriented firms gather more critical market information, recognise new customer opportunities and satisfy customers by delivering the demanded products or services.

Firms gone green

In our paper, we measure the adoption of management practices in a large-scale survey of 4,324 French firms with ten or more employees against their customer orientation. We considered customer orientation on the following dimensions:

1. How much the firm values customer preferences and norms, which is exhibited in its commitment to quality standards, such as ISO9000.
2. Whether the firm has an information system in place to gather data from customers in order to translate those values into action. This is reflected in tools to study client expectations, behaviour and satisfaction and whether the firm has an externally-facing department focused on improving customer relationship management, among others.
3. Responsiveness to customer claims, which is shown in the firm's commitment to supply after sales service and address customer issues via call centres.

To gauge their corresponding environmental management practices we examined the firms' procedures to identify and measure environmental impacts by preparing environmental audits, setting environmental performance goals or its ISO14001 environmental certification.

We hypothesised and found that the higher the level of customer orientation, the higher the likelihood that environmental management practices would be adopted. We also found that in a competitive market, the probability increased that firms would invest more in environmental management to differentiate themselves.

Under two conditions, however, firms didn't feel the need to go the extra mile and demonstrate their environmental credentials; periods of market growth and periods of market uncertainty, which did not add significant incentives to try and win customers.

We also found responsiveness to be an insignificant pillar of customer orientation, having very little impact on environmental practices. This could be explained by the fact that a focus on only resolving current customer claims makes firms miss the needs of new customers, making them less innovative. The dimensions that mattered most were the firm's values and norms and its information-gathering facilities.

Across different sectors, we found some to be more sensitive to the adoption of environmental practices than others, such as food, consumer goods, cars and equipment and transport, the highest being construction and intermediate goods and energy.

It's what customers want

It's clear from our research that customer satisfaction is an important driver of the implementation of environmental management practices. Firms need to integrate environmental issues into their strategic marketing and environmental management practices into their operations. Industrial customers also expect to see additional product attributes that have taken the environment into account to satisfy their stakeholders. This not only contributes to the firm's performance but also contributes to the development of long-term relationships and a firm's capacity to innovate.

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