

The Influence Marketing Innovation and Organizational Innovation, to Strategic Innovation, Diffusion Innovation and Market Differentiation, to Market Outstanding Performance, and Organizational

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The Influence Marketing Innovation and Organizational Innovation, to Strategic Innovation, Diffusion Innovation and Market Differentiation, to Market Outstanding Performance, and Organizational Sustainability: A Resource-Based View Perspective of Indonesian Banking Industry

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Abstract

Organizational innovations are marketing innovation essential for firms' long-term competitiveness. In spite of this, there is less research on marketing innovations than on organizational innovations. The purpose of this research is to contribute to our understanding of how marketing innovations could shape organizational innovations, which can lead to the organization sustainability. The journey started by exploring the strategic innovation, the creation of diffusion innovation, and marketing differences through a literature-review-based article and an empirical study on the organizational innovation. The study continued with an empirical study elaborating upon the role of the marketing outstanding performance in sustaining the organizational innovations. In each empirical study, data were collected through questionnaire and interviews, supplemented by primary and secondary data. The three concepts of marketing, organizational and strategic of innovations were found to be three intertwined concepts, rather than three separate and sequential ones. One reason was that marketing innovations were constantly re-invented through the processes of creation, diffusion, and sustainability. In this context, the concept 'Sustainability' refers to an improvement trajectory, rather than to a particular organizational innovation. The improvement trajectory is path-dependent and directs the creation, diffusion and sustainability of organizational innovations to and within a firm. The results of this research is a conceptual model that integrates the three concepts marketing, organizational and strategic of innovations in a market outstanding performance, and organizational sustainability circling around a firm-specific improvement trajectory. Each concept is affected by three sets of influencing factors: the external context and interpersonal diffusion channels, the firmspecific internal context, and the characteristics of the innovation itself. To find out how the characteristics of marketing and organizational innovations affect the applicability of the organizational sustainability, the conceptual model was tested on a different organizational innovation banks, identified in an empirical study conducted at 10 most sustainable banks in Indonesia, known for its focus on continuous innovation. The test showed that the conceptual model was valid and was useful in identifying all of marketing, organizational, and strategic innovation to reach out the organizational sustainability.

Keywords:

Marketing Innovation, Organizational Innovation, Strategic Innovation, Diffusion Innovation, Market Differentiation, Market Outstanding Performance, Organizational Sustainability.

I. INTRODUCTION

1.1. Research Background

In the last two decades, Indonesia has witnessed a rapid increase in the number of local and foreign banks. The number of licensed banks operating in Indonesia has risen totally from 90 banks in 2000 become 120 banks at the end of December 2013 (<http://www.bi.co.id>). From the total, 37 were Indonesian biggest banks, and 10 were foreign banks. In 2013, the number of best banks has reached to 33 banks, and unfortunately the most sustainable banks were only 10, which operated 201 branches and 120 head offices in Indonesia. The increase of the number of banks has resulted in high competition among banks. As a result, banks managements have to market their banking services in different and attractive ways to satisfy and fulfill customer needs and desires which are continuously changing. Banks are exerting their best efforts for the purpose of achieving profits that help in covering their expenses, ensuring their survivals, and maximizing their values (Kumar et al., 2011). Therefore, it is critical that managers identify and understand strategic orientations such as market orientation to enable a firm to achieve competitive advantage that leads to greater organizational performance.

The popularity of the resource-based view (RBV) of the firm has turned our focus on the black box of the firm. Theoretically, the central premise of RBV addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources. The founding idea of viewing a firm as a bundle of resources was pioneered by Penrose in 1959. Penrose argued that it is the heterogeneity, not the homogeneity, of the productive services available from its resources that give each firm its unique character. The notion of firm's resources heterogeneity is the basis of the RBV. The significance of the resource perspective as a new direction in the field of strategic management was broadly recognized with the path-breaking article by Wernerfelt (1984). Wernerfelt (1984) suggested that evaluating firms in terms of their resources could lead to insights that differ from traditional perspectives.

Over the last decade, much of the strategy literature has emphasized resources internal to the firm as the principal driver of firm profitability and strategic advantage. This transition in academic and managerial attention from an Industrial Organization (IO) economic view towards a resource-based view of strategy has occurred for several reasons. First, the rate of change in terms of new products, new technology, and shifts in customer preferences has increased dramatically. Obviously, a static snapshot of a moving industry was not an adequate means for formulating strategy in an increasingly dynamic environment (Bettis & Hitt, 1995). Secondly, traditional industry boundaries are blurring as many industries converge or overlap, especially in information technology-related industries (Bettis & Hitt, 1995; Hamel & Prahalad, 1994). Yet, traditional IO strategic thinking is based on stable industry, as are many strategic analysis tools, including competitor analysis, strategic groups, and diversification typologies. Finally, the increasing rate of change has put increasing pressure on firms to react more quickly, as time is often seen as source of competitive advantage (Stalk & Hout, 1990). All these reasons suggest that firms may look inwardly for strategic opportunities, while, at the same time, must reconceptualize how they think of industries and define competitors.

The importance of the resource-based view (RBV) of strategic management is manifest in its rapid diffusion throughout the strategy literature (e.g., Wernerfelt, 1984; Barney, 1991; Peteraf, 1993; Maijoor & Witteloostuijn, 1996; Amit & Schoemaker, 1993). Drawing on

previous research in RBV, this study aims at illustrating the interrelationships between RBV and organizational innovation.

Innovativeness is one of the fundamental instruments of growth strategies to enter new markets, to increase the existing market share and to provide the company with a competitive edge. Motivated by the increasing competition in global markets, companies have started to grasp the importance of innovation, since swiftly changing technologies and severe global competition rapidly erode the value added of existing products and services. Thus, innovations constitute an indispensable component of the corporate strategies for several reasons such as to apply more productive manufacturing processes, to perform better in the market, to seek positive reputation in customers' perception and as a result to gain sustainable competitive advantage. Particularly over the last two decades, innovativeness has turned into an attractive area of study for those researchers who tried to define, categorize and investigate its performance impacts, especially due to its practical relevance. Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage (e.g. Drucker, 1985; Hitt et al., 2001; Kuratko et al., 2005).

Marketing innovation is important for organizations to compete against one another in the worldwide global market. In response to the changing needs of the customers, service firms have taken various approaches to make sure that they provide adequate services to their customers. Marketing innovation is considered as a business culture that facilitates firms in achieving sustainable competitive advantage by creating superior customer value (Narver and Slater, 1994). Since customer needs change rapidly, a marketing innovation requires a clear understanding of both the present and future demand dynamics of target customers. The salient dimensions of marketing innovation which are customer and competitor orientation, are considered important organizational and strategic innovation to achieve a organization sustainability (Sørensen, 2009; Zhou et al., 2005; Slater and Narver, 1994). Another reason which makes marketing innovation important is its link to organizational market performance because marketing innovation constitute a crucial success factor for organizational sustainability (Tsiotsou and Vlachopoulou, 2011). Consequently, the ultimate success of any businesses lie within the firms' ability to serve its customers, which means that firms should adopt more market-based strategies, such as marketing innovation, to improve its market performance (Li and Zhou, 2010).

A marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing (OECD Oslo Manual, 2005). Marketing innovations target at addressing customer needs better, opening up new markets, or newly positioning a firm's product on the market with the intention of increasing firm's sales. Marketing innovations are strongly related to pricing strategies, product package design properties, product placement and promotion activities along the lines of four P's of marketing (Kotler, 1991).

Finally, an organizational innovation is the implementation of a new organizational method in the firm's business practices, workplace organization or external relations. Organizational innovations have a tendency to increase firm performance by reducing administrative and transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradable assets (such as non-codified external knowledge) or reducing costs of supplies (OECD Oslo Manual, 2005). Examples would be the introduction of practices for

codifying knowledge by establishing databases of best practices, lessons learnt and other knowledge, so that they are more easily accessible to others; the introduction of training programs for employee development and improved employee retention; or the initiation of a supplier development program. Thus, organizational innovations are strongly related with all the administrative efforts of renewing the organizational routines, procedures, mechanisms, systems etc. to promote teamwork, information sharing, coordination, collaboration, learning, and innovativeness.

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Although a substantial amount of research on marketing innovation, and market outstanding can be found in the marketing literature, little attention has been paid in investigating the relationship between organizational innovation, strategic innovation, diffusion innovation, market differentiation and organizational sustainability in the banking industry. To the best knowledge of the researchers, this is the first research of its kind in Indonesia that addresses such particular topic. It is vitally essential for banking managers to comprehend and measure the impact of marketing innovation and organizational innovation on organizational sustainability via strategic, diffusion innovation, and market differentiation. Therefore the key purpose of this study is to investigate the relationship between marketing innovation, organizational innovation, strategic innovation, diffusion of innovation, market differentiation, market outstanding performance, and organizational sustainability in the banking industry in Indonesia.

In this study, we aim to explore marketing and organizational innovations and their effects on organizational sustainability by examining strategic, diffusion, and market difference, as well as by focusing on market outstanding performance. Therefore the main contribution of this study is the comprehensive innovation-performance analysis based on empirical data, which not only revealed the positive effects of innovation types on firm performance but also yielded a path of relations among these variables using structural equation modeling approach.

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In the following discussion, this paper reviews the theoretical background and theories leading to a number of research hypotheses. This is immediately followed by a detailed specification of the research methodology. Thereafter, the empirical results are presented and discussed. The final part of the paper presents the discussions on the basis of the research findings, managerial implications, outlines some inherent limitations and provides some directions for future research.

II. LITERATURE REVIEW

2.1. Previous Study

Formally, innovation is considered as developments and new applications, with the purpose of launching newness into the economic area. It can be conceived as the transformation of knowledge to commercial value. Innovation has great commercial importance due to its potential for increasing the efficiency and the profitability of companies. Actually, the key reason for innovativeness is the desire of firms to obtain increased business performance and increased competitive edge. Companies procure additional competitive advantage and market share according to the level of importance they give to innovations, which are vital factors for companies to build a reputation in the marketplace and therefore to increase their market share. Metcalfe (1998) stated that when the flow of newness and innovations desiccates, firms' economic structure settles down in an inactive state with little growth. Therefore, innovation plays a significant role in creating the differences of performance and competition among firms, regions and even countries. For instance, the study by Fagerberg et al. (2004)

revealed that innovative countries had higher productivity and income than the less-innovative ones. OECD reports pointed out that companies that developed innovations in a more decisive way and rapidly, had also more qualified workers, paid higher salaries and provided more conclusive future plans for their employees. In fact, the effects of innovations on firm performance differ in a wide spectrum from sales, market share and profitability to productivity and efficiency (OECD Oslo Manual, 2005).

McAdam and Keogh (2004) investigated the relationship between firms' performance and its familiarity with innovation and research. They found out that the firms' inclination to innovations was of vital importance in the competitive environments in order to obtain higher competitive advantage. Geroski (2005) examined the effects of the major innovations and patents to various corporate performance measures such as accounting profitability, stock market rates of return and corporate growth. This planned increment in value addition can only be attained with the help of innovation practices. The organizational researchers are of the view that adoption of

innovation is the main vehicle for organizational adaptation and change to improve firm performance especially under the conditions like scarce resources, dynamic business environment, intense competition and changing customer demands for better quality (Jansen et al, 2006; Roberts & Amit, 2003). To the best knowledge of the authors of this study, especially within Indonesian banking context, little or no attention has been given to examine the effects of innovation types on firm's performance. There is a strong need of such kind of research in Pakistan as it is the most neglected area yet most important. As Hitt et al. (1991) argue that strategic competitiveness can best be achieved by firms through developing new technologies. Therefore, the only way for a firm to gain a sustainable competitive advantage is invariably upgrade its processes and activities through innovation (Porter, 1990; Drew, 1997). Even if innovation do not get direct rewards by market, it can be used to generate dynamic capabilities to manage changes in the organization's environment (Teece et al, 1997) and to gain first-mover advantages (Lieberman & Montgomery, 1998) or react speedily to market changes (Cohen & Levinthal, 1990).

The significance of innovation can also be observed in the study of Fagerberg et al, 2004 which states that innovative countries had higher levels of productivity and income than less-innovative ones. Innovation has been defined in many different perspectives by various scholars. Damanpour & Gopkrishnan (2001) defined innovation as 'the acceptance of any idea or conduct related to a product, service, system, device, policy or program that is new to the adopting organization'. In the same context, Nohria & Gulati, 1996 defined innovation as 'the inclusion of any policy, program, structure, process or any market or product that a manager perceives to be true'. Thompson (1965) defined innovation as 'the generation, acceptance & implementation of new ideas, products, processes or services'. Amabile et al, 1996 put forward a brief definition of innovation which is the successful implementation of creative ideas within an organization. In short, the core of innovation is the newness of an idea that in turn improves organizational performance (Camisón-Zornoza et al, 2004).

2.2. Theoretical Framework

2.2.1. Resources-Based View of Innovation

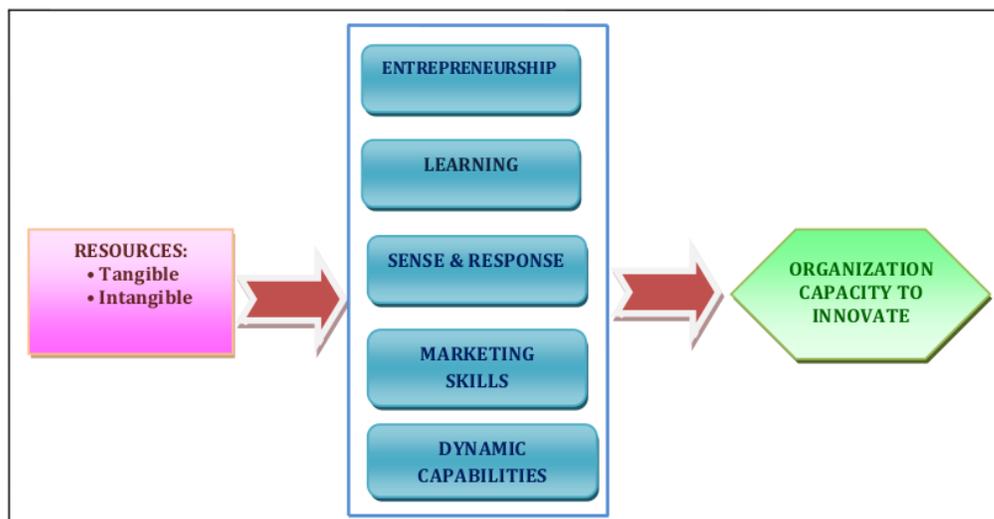
The resource-based view of the firm offers new directions for organizational innovation as has shifted the attention towards the firm and its unique characteristics. In this vein, RBV redirects organizational innovation research as well, especially in terms of the factors that

determine firm-level innovation. The contributions of the resource-based perspective highlight the differences that brings comparing to other (traditional) perspectives that study innovation. The resource-based research on innovation is based on the fundamental premise that organizational resources and capabilities are those that underlie and determine a firm's capacity for innovation. Within this perspective, organizational resources (tangible and intangible) are taken to provide the input that in turn is combined and transformed by capabilities to produce innovative forms of sustainable competitive advantage.

From the resource-based view perspective, innovation does not come simply from scanning the external environment for market opportunities, but from looking inside and build on the resource endowment and core competencies of the organization. Organizational resources and capabilities are taken to offer the necessary input for the development and exploitation of the firm's innovation activities. Consequently, the focus of the RBV is not only on how to squeeze innovative output out of the organizations, but also on how to provide the fuel for innovative activity to occur in the first place.

Based on the assumption of firms' resources heterogeneity the RBV focuses on the firm's opportunity to produce innovative output with increased future value. The benefits of such an innovation output may last longer, will probably motivate and facilitate a new innovation effort, and may contribute to a sustainable competitive advantage. This is primary because the whole innovation process is based on combinations of strategic assets that are firm-specific and thus, difficult for competitors to imitate.

Figure 1: Capabilities determining an organization's capacity to innovate



Sources: Newman (2000).

The RBV literature suggests that a firm should strive to innovate not only better than competitors but also one step before the competition. By developing dynamic capabilities, for example, a firm is able to adapt to changing industry conditions, learn and exploit new knowledge and articulate an innovative response to previously nonexistent market demand. Finally, the relationship between RBV and innovation is bilateral. By this we mean that while

RBV expands our knowledge on the factors that determine the firm's capacity to innovate, at the same time innovation is one mechanism through which a firm can renew the value of its assets. This mutual beneficial relationship helps create and sustain advantage in two ways. First, the firm are able to produce innovative output of increased value, and second, through implementing innovations firms can establish new 'stocks' of specific assets that others will find impossible to replicate quickly.

Marketing skills appear an important role for the implementation and exploitation of innovation. Several authors found a positive association between innovation and marketing competences examining US, European, and Japanese contexts (Song et al., 1997; Song & Parry, 1996, 1997; Hultink et al., 2007). Moreover, what constitutes perhaps a more important capability for the firm is the integration and interaction between marketing and R&D functions in order to facilitate information flow within and between departments, accelerate innovation process and achieve successful innovation output (Souder & Jenssen, 1999).

Organizational learning has also indicated positive effects on organizational innovation. Learning helps firms to generate new knowledge, recombine existing knowledge and skills, and adapt to changing market conditions. Newman (2000) argues that learning can help organizations to change. Lynn et al. (1999) studying high technology US firms found a positive relationship between learning and innovation. Bartezzaghi et al. (1997), Helfat and Raubitschek (2000), and Lane and Lubatkin (1998), reached similar conclusions examining Italian and Swedish companies.

2.2.2. Marketing Innovations

A marketing innovation is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing (OECD Oslo Manual, 2005). Marketing innovations target at addressing customer needs better, opening up new markets, or newly positioning a firm's product on the market with the intention of increasing firm's sales. Marketing innovations are strongly related to pricing strategies, product package design properties, product placement and promotion activities along the lines of four P's of marketing (Kotler, 1991).

Marketing innovation is defined as *implementing new marketing method that involve significant changes in packaging, design, placement and product promotion and pricing strategy*. The objective of marketing innovation is to increase the sales and market share and opening new markets. The distinctive feature for the marketing innovation from the other types of innovation is the implementation of new marketing method that the firm has never been implemented before. The product design, that only changes the appearance of the product and does not change the features and functionality of the product, is also marketing innovation (OECD, 2005). Marketing innovation is non technological innovation. Firms bring innovation in their marketing methods to bring efficiency in their business (Polder et al., 2010). Marketing innovation is developing new techniques, methods for marketing. Developing new techniques, methods and tools for marketing have significant role in success of the organizations. The example of marketing innovation is 'changed ways for collecting customer's information'. Firms now use computer software to collect customer information. The new formats of trading, like online store is also example of marketing innovation (Chen, 2006).

2.2.3. Organizational Innovation

An organizational innovation is the implementation of a new organizational method in the firm's business practices, workplace organization or external relations. Organizational innovations have a tendency to increase firm performance by reducing administrative and transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradable assets (such as non-codified external knowledge) or reducing costs of supplies (OECD Oslo Manual, 2005). Examples would be the introduction of practices for codifying knowledge by establishing databases of best practices, lessons learnt and other knowledge, so that they are more easily accessible to others; the introduction of training programs for employee development and improved employee retention; or the initiation of a supplier development program. Thus, organizational innovations are strongly related with all the administrative efforts of renewing the organizational routines, procedures, mechanisms, systems etc. to promote teamwork, information sharing, coordination, collaboration, learning, and innovativeness.

Organizational innovation is defined as *introduction of new practices of doing business, workplace organizing methods, decision making system and new ways of managing external relations* (Polder et al., 2010). OECD (2005) defined the organizational innovation as *implementing new ways of organizing business practices, external relations and work place*. Organizational innovation is new ways of organizing routine activities. For organizational innovation firms change the method of organizing that firm has not implemented before. Organizational innovation can increase the performance of the organization by decreasing the transaction cost and administrative cost. Firms bring organizational innovation to bring efficiency in the business. The new organizational method must be at least new to the organization and new method can be developed by the firm itself or with the help of third party (Polder et al., 2010). Organizations bring changes in their organizational setup. They change the ways of organizing things to compete with their competitors and satisfy the customers (Ettlie & Reza 1992).

2.2.4. Strategic Innovation

A study of the literature revealed that the plea for creating *new* competitive advantages and disruptive strategies put forward in the hypercompetition view bears much in common to the central tenets of the strategic innovation literature (Mol & Birkinshaw, 2009). Some authors have argued that the need to strategically innovate directly flows from the characteristic traits of the hypercompetition phenomenon itself (Alamdari & Fagan, 2005). Forces such as globalization and technological innovation may lower industry barriers (e.g. the appearance of a foreign or nimble disruptive challenger) and make gentlemanly agreements among incumbents consequently erode (Grawe et.al 2009). In this context of increased rivalry, following similar strategies to rivals in an attempt to take away market share from them (Olavarrieta & Friedmann, 2008) ends in simply outperforming them on the basis of incremental improvements in cost, quality or both (Newman, 2000). The fight over increasingly smaller industry spaces eventually leads to fierce price competition. The intra-industry performance variance will be small since firms all have similar experience in the same areas and hence compete with the same weapons (Nohria & Gulati, 1996). Basically, in their attempts to out-compete each other companies approach (or bounce into) a perfect competition state (D'Aveni, 1999). The only way companies can escape the perfect-competition scenario and achieve abovenormal profits is by creating *new* competitive

advantages (e.g., D'Aveni, 1999). This rivalry is moreover rewarded because disruptive strategies can stimulate demand by responding to advanced customer needs (Roberts, 1999). In this way, differences between winners and losers will be larger (Roberts and Amit, 2003).

Yet, not all authors on strategic innovation have taken hypercompetition as the starting point of their discussions. Teece et.al for example, points out that the issue of strategic innovation is not new, neither is it becoming more important because of increasing environmental turbulence. He argues that eventually, *all industries mature* since competitors all tend to focus on a small number of narrow 'industry spaces', i.e. customer segments, products/services, and manufacturing and distributions methods. Implicit assumptions about how to compete are widely shared among industry players (Szymanski et.al, 1993). Different theoretical rationales have been developed to explain these imitation driving forces (for an overview, see Wang, 2011). Basically, the more an industry matures, the more companies tend towards strategy convergence. Ardner (2001) indeed showed that firms are more inclined to pursue unconventional strategies during periods of market growth. This is because in periods of market stagnation, a shortage of resources makes firms more susceptible to institutional pressures imposed by powerful actors (Teece et.al, 1997). As a consequence, when the need to strategically innovate is the highest, companies seek refuge in strategy convergence. Since strategy convergence narrows competition down to a small competitive space, competition becomes fiercer. In this way, firms themselves contribute to a further erosion of the industry's profit potential. Vega et.al (2008) and Souder (1999) hence argue that not so much hypercompetition but these imitation driving forces produce strategy convergence. It is exactly the latter that largely leads to increased rivalry among industry players, which will eventually evoke price competition. Lower prices drive down excess profits onto the competitive equilibrium, at which consumer welfare is maximized (Zeng, 2010). Larsen et al. (2002, 2003) empirically demonstrated that not so much new entry but this inter-organizational strategy convergence will eventually erode above normal profits in an industry.

In sum, underlying the literature on strategic innovation is always the premise that the specific *types* of innovation firms compete with affect their competitive position (Günday and Alpan, 2011). The basic tenet of strategic innovation is however that the occurrence of price competition in small industry spaces does by no means imply that the industry has lost all of its profit potential; it is just what Enzig (2011) call a 'maturity trap'. Not only get attractive positions imitated but new –often neglected– strategic positions keep emerging as well (Grawe et.al, 2009): the so-called 'unexploited pockets of profitability' in the industry (Huang & Liu, 2005). Thus, "strategic innovation focuses on changing firmlevel strategy over time to identify unexploited positions in the industry ahead of rival firms" (Jimenez and Sands, 2011).

In his 1999-article Hurley and Hult (1998) notes that the unexploited gaps in the industry positioning that have to be identified for strategic innovation may stem from changing market and industry conditions. Discontinuities may thus contain innovation potential (Cingöz & Akdoğan, (2011). In other words, turbulence is not regarded as an external threat that should be responded to, but more as "generating new opportunities and the potential for new ground rules" (Subramanian & Nilakanta, 1996). Apart from its response capacity a company's proactive behavior is hence largely emphasized (Anderson & Lehman, 1994; Sok & Cass, 2011).

Contrary to the product life-cycle paradigm of birthgrowth- maturity-decline, industries (and some of their incumbents too) possess possibilities for industry 'de-maturity' (Aragon et.al,

2007). Naidoo (2010) indeed demonstrated that strategic innovation does not only produce profits on a company level. Also on an industry level, strategic innovators are capable of increasing average firm profitability (i.e., industry profitability) and in this way, may rejuvenate the entire industry. In this respect, strategic innovation insights build further on strategic choice theories, by refuting the assertion of environmental determinism (Ar & Baki, 2011). As proactive strategic behavior is considered related to managerial intentionality (Chen, 2006), not environmental forces but managerial action and choice are deemed as *the* driver of firm performance (Song, 1996,1997). 1994).

Following this logic, strategic innovation can originate from the organizational competencies giving rise to new opportunities and new ways to play the game (e.g., Robinson, 1990). The consequences for marketing have been expressed by Vega et.al (2008) as follows: “[...] marketing is the art and science of creating change (disequilibrium) in markets in such a way that the change benefits the firm (or an alliance of firms) and, consequently, comparatively “disadvantages” rivals. If a market is in equilibrium, marketers are not doing their job”.

Accordingly, the central idea of strategic innovation is one contra strategy convergence (e.g., Atuahene & Gima, 1996), whether produced by hypercompetition or not. Strategic divergence implies that the nature of competition is changed (Duranton & Puga, 2001): firms deviate from, or even actively alter, the industry rules of the game (Subraimanian & Nilakanta, 1996). Accepted industry assumptions about how to compete are challenged and overturned (Sok & Cass, 2011) by introducing a ‘a new way of playing the game’ (Robinson, 1990). “A strategic innovation is a creative and significant departure from historical practice” (Nunnally, 1978; Duranton & Puga, 2001; Cingöz, & Akdoğan, 2011).

In conclusion, a deviation from the industry rules of the game with the view of offering new and substantially superior customer value can be regarded as the central notion of SI. This notion builds around two elementary aspects of strategic innovation, i.e. industry rule deviation and superior customer value creation.

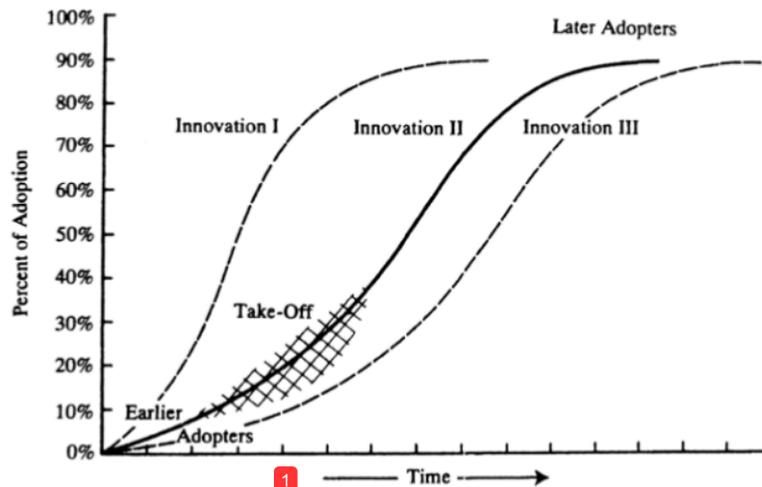
2.2.5. Diffusion Innovation

³ A single innovation will only have a significant impact if it achieves commercialization on a large scale. In other words, an innovation must create market demand and spread (be diffused) into various market segments. Innovation diffusion can thus be defined as “*the process of market penetration of new products and services, which is driven by social influences. Such influences include all of the interdependencies among consumers that affect various market players with or without their explicit knowledge.*” (Peres, Muller, and Mahajan (2010)). The diffusion of innovations follows a path of technology adoption.

³ The innovation and diffusion process is usually described as an S-curve that characterizes the cumulative adoption of a certain product or technology over time. The underlying idea is that adoption follows a bell-shaped or normal-shaped curve indicating the frequency distribution of buyers or adopters. Most existing research goes back to the influential work “*Diffusion of Innovations*” by Rogers (2003), originally published in 1962 and now in its third edition. Rogers focused on technologies and their diffusion, assessing how new products and services spread through social systems over time.

³ The diffusion of an innovation starts with the commercialization of an invention and may take different development paths, depending on the individual perception of each adopter. As shown in Figure 2, some innovations develop faster than others. For example, Innovation II is initially adopted faster than Innovation I, meaning that more people or firms are willing to adopt Innovation II early in the technology lifecycle than is the case for Innovation I. Rogers defines diffusion as "the process by which an innovation is communicated through certain channels over time among members of a social system" (Rogers (2003)).

Figure 2: Diffusion of innovations



Source: Rogers (2003).

Diffusion is thus comprised of four main constituents: (1) the innovation itself, (2) communication channels, (3) time and the (4) social system. The characteristics of an innovation determine its rate of adoption. For instance, if the relative advantage compared to existing solutions is high and if the new solution is comparatively easy to use, the adoption of the innovative technology is, *ceteris paribus*, likely to be relatively fast.

Communication channels are another important feature of diffusion as they influence potential users' willingness to adopt innovations and, hence, their adoption patterns. Communication channels involve both direct interpersonal communication and marketing and mass media instruments. Time is a mediating variable. Time enhances the process of learning through experience and allows multiple potential adopters to observe an innovation's performance. Over time, uncertainty surrounding an innovation is reduced and production costs are lowered, making the innovation attractive to a broader set of potential adopters. However, the final element in the equation – the social system – is probably the most complex one. Rogers defines a social system as "a set of interrelated units that are engaged in joint problem-solving to accomplish a common goal. A system has structure defined as the patterned arrangements of the units in a system, which gives stability and regularity to individual behavior in a system" (Rogers (2003)). The social system could thus support the diffusion of innovations if they meet the demands of opinion leaders. However, the social system may also hinder diffusion if a given innovation has a disruptive effect on the wealth situation of important system units.

The individual preferences of the above-mentioned constituents will increase the adoption rate over time, steepening the slope on the typical S-curve. The S-curve can be segmented into adopter categories. The first individuals or firms to adopt are referred to as innovators (the first ~2.5% of all adopters), followed by the early adopters (the next ~13.5% of all adopters), the early majority (the next ~34% of all adopters), the late majority (the next ~34% of all adopters) and the laggards (the last ~16% of all adopters). These categories were first established and roughly quantified by Rogers (2003) and are still widely accepted and used by many scholars from multiple disciplines. (e.g., Bass (1969); Mahajan, Muller, and Srivastava (1990); Agarwal and Gort (2002)). Mahajan, Muller, and Srivastava (1990) validated the categories both analytically and empirically. He found that category sizes are indeed approximately comparable to those suggested by Rogers. Each category reflects the innovativeness of a homogeneous group of adopters with respect to a certain product or technology, i.e. their propensity to buy a certain product or adopt a certain technology. Figure 2 shows the innovation diffusion curve and the various adopter categories and segment sizes. The y-axis denotes the degree of adoption. The x-axis stands for the point in time. Out of a pool of potential adopters, maximum penetration is achieved when the degree of adoption reaches 100%. The first graph shows cumulative adoption by adopter categories. The second graph shows the distribution of individual adopters in each group. This simply means that, when early adopters start to purchase the product or adopt a certain technology, they follow the group of innovators that have already adopted it. According to Rogers, the innovators segment makes up 2.5% of the overall population of potential adopters. The first graph therefore indicates the overall adoption rate, which is equal to the area of the second graph that shows the individual number of adopters over time. The diffusion model defined by Rogers offers several advantages. It is easy to use, has mutually exclusive and collectively exhaustive categories, conceptualizes earlier empirical findings (e.g., Mansfield (1961); Fourt and Woodlock (1960); Griliches (1960)) and exhibits good predictive value. However, the model has also been subject to criticism pointing out four major drawbacks. First, some authors (e.g., Bass (1969)) argue that the given characteristics and structures are rather indicative, i.e. that they lack rigorous empirical and analytical evidence. Moreover, it is argued that the proposed model does not hold for all innovations. Mahajan and Peterson (1996), for instance, provides examples in which the model does not hold. Second, successive technology generations cannot be mapped, although they are a very common phenomenon in practice. Third, the model offers no explanations for turning points that indicate the transition from one phase to the other. This assertion not only reduces the predictive value of the model, but also limits the implications that can be drawn for the purposes of proactive technology or product management. (e.g., Golder and Tellis (1997); Golder and Tellis (2004)) Finally, some authors (e.g., Kline and Rosenberg (1986)) claim that the innovation and diffusion process is not linear and is a lot more complex than Rogers suggests.

2.2.6. Market Differentiation

A market differentiation occurs when a firm creates a unique image in the market and achieves customer satisfaction and loyalty through meeting customers' particular needs and desires (Miller, 1987). A customer-oriented firm is able to make its market offerings more differentiate by adjusting its marketing mix through the knowledge of the customers' needs and desires (Li and Zhou, 2010). In order to distinguish a bank from its competitors, provides a competitive marketing tool, and to be the most preferred bank for a certain given market segment are through the development of marketing mix strategy (Akdag and Zineldin, 2011). Such as, good services, effective processes, qualified staff members, convenient locations, customized and personal solution, which does not imply most up-to-date service. A favorable

image weakens the negative effect of competitors and enabling organizations to achieve a greater profit (Fombrun and Shanley, 1990). It is indicated by Amonini et al. (2010) that professional service firms seek to differentiate themselves by providing better service quality and greater value, developing brands with strong reputations, and developing long-term relationships in order to achieve competitive advantage, and superior performance.

In addition, a company's tacit knowledge and the experience of public relations that a company accumulates over a long period of time are both difficult resources for competitors to imitate (Ren et al., 2010).

2.2.7. Market Outstanding Performance

Marketing and performance are interrelated responses to the environment in which a company is operating (Hill and Wright, 2000). Managers are more and more faced with rapidly changing environments, involving changes in competition, customer demand, and technology (Dilts and Hanlon, 2002). According to Fillis (2010), today's market conditions are shaped by chaos, fragmentation, uncertainty, complexity, and ambiguity. Environmental uncertainty concerns attributes upon which marketer's attention may be selectively focused, such as customers, competitors, suppliers, regulatory agents, partners, and other actors (Dilts and Hanlon, 2002). Consequently, marketing decisions in innovative firms are based on daily contacts and networks while value is created through effective relationships, partnerships, and alliances (Jones and Rowley, 2009). They think that the key drivers of market outstanding performance relate to partners, customers, and competitors.

Partners. Hill and Wright (2000) pinpoint understanding markets, customers, and competition among the central aspects in marketing/entrepreneurship interface. Moreover, they (*ibid.*) emphasize selling, sourcing and buying relationships, suggesting that partners are essential. Chorev and Anderson (2006) found that networking with partners can be very useful for a small business by assisting in expanding its own limited resources and capabilities. As small companies typically lack knowledge and market information, they can access new resources and save time through the partner networks (Collinson and Shaw, 2001). They should leverage the strengths of others by seeking cooperation with both customers and major companies to overcome their deficiencies and lack of resources and to improve their access to markets (Chorev and Anderson, 2006). Partners can also be suppliers or distributors in the supply chain, and understanding their needs is as crucial as understanding those of the customers. Market leadership is often characterized by innovative marketing techniques and careful control of distribution channels (Knight, 2000). Chorev and Anderson (2006) argue that for supply and distribution partners, environmental uncertainty exists because of a lack of experience in selling, delivering, and supporting products on a new market.

Customers. Marketing literature generally accepts that a company should focus on its customers and the 'customer-first' philosophy is a predominant one in a superior successful business (Hill and Wright, 2000). An organization is always more or less able to generate market intelligence pertaining to current or future customer needs and to respond to it in an organization-wide manner (Duus, 1997). Therefore, Mohr (2001) stresses the importance of identifying the customer's new and changing needs that the company should meet in the future. Understanding their needs and implementing their feedback is the only way to achieve a sellable product (Chorev and Anderson, 2006). Chorev and Anderson (*ibid.*) argue that the risk for customers is magnified by the uncertainties associated with, e.g., a new technology. The pressure for market outstanding performance includes the search for unusual,

new, and creative promotion methods in order to attract customers. Chaston (1997) argues that with market outstanding performance-driven companies the pressure for change, which can come from customers, is in the area of increasing the effectiveness of the new product development process and/or reducing "time-to-market" schedules.

Competitors. The literature about the marketing orientation of small firms concentrates on the difficulties that companies experience and encounter in their practice of marketing (Hill and Wright, 2000). Hill and Wright (2000) suggests that market outstanding practice depends on competitive trends in addition to customers' expectations. This view is supported by Hills et al. (2008), who suggest that marketing competencies in innovative firms are typically driven by a superior understanding of market positioning. This aspect highlights the need to understand markets in terms of competition. Recognizing current and future competitors are among the key drivers of marketing practice (Mohr, 2001). Therefore, marketing has an important complementary role to market outstanding performance in this, because it aids the process of identifying as yet unperceived needs and helps in identifying opportunities in a changing environment (Collinson and Shaw, 2001). Atuahene-Gina and Ko (2001) point to the intensity of market competition by tapping the perceived similarity of competitor offerings, price competition, and aggressiveness of the competitor's behavior.

2.2.8. Organizational Sustainability

As the innovation in itself is constantly re-invented, and since the term "sustainability of an organizational innovation" emphasizes the fact that a firm should stick to a particular organizational innovation for a certain time period, which could be a sign of inertia (Buchanan et al. 2005), the concept of sustainability has to be well thought through. A solution could be that found by Buchanan et al. (2005). According to the authors, the concept 'Sustainability' could refer to an improvement trajectory, rather than to a particular organizational innovation. This would according to the authors imply a more dynamic perspective on sustaining organizational change. The static view in form of sustaining a particular organizational innovation would then be only temporarily relevant.

After a review of the literature on sustaining organizational change, Buchanan et al. (2005) identified four sets of factors that all played a role. The four sets were: the 'internal context'; the 'external context'; the substance of change, the change process, and its timing; and finally organizational factors (factors that could be configured and interact in different ways). The relative importance of each set and of each factor within each set was not identified, but it was emphasized that the interplay between the factors played an important role. In Figure 2 an adapted version of the model developed by Buchanan et al. (2005, p. 202) is presented. Each set of factors will then be discussed.

context and the firm's inertia and path-dependency (as a result of a firm's history, i.e. internal context) seem to play a role in all three processes. In addition, the innovation's perceived importance for the organization and the timing of the innovation, matter in all three processes.

Finally, most of the organizational factors have been identified as important also for the 'creation' and 'diffusion' of organizational innovation. What is partly new in the model of Buchanan et al. (2005) are two things: first, the change process as such, which was not discussed by Birkinshaw et al. (2008) and was discussed only indirectly as an issue of standardization in the step 'implementation' in Alänge et al. (1998). Second, the external turbulence and uncertainty was identified as an inhibitor for sustaining an organizational innovation. The latter finding is of interest, as it could mean that it would be harder for a firm to sustain a particular organizational innovation in a rapidly changing industry than in the case the industry is more matured. This would in turn mean that the focus on an improvement trajectory instead of a particular organizational innovation, could be of even higher relevance for firms in rapidly changing industries, which could fit well with the ideas of constant renewal necessary in rapidly changing industries developed by Brown and Eisenhardt (1997, 1998).

Regarding the improvement trajectory, it could be viewed as a number of synergistic and complementary organizational innovations, since the firm and its search and learning processes are path-dependent. For this reason, the initial innovation puts constraints on later development of the organization (Kimberly, 1979). In the event that a later implemented organizational innovation is not synergistic with and/or complementing the already implemented innovation, the new innovation might be seen as a start of a new improvement trajectory. Tools such as standardization, road maps and/or narratives could be used either to strengthen a certain trajectory or to communicate and make sense of a new trajectory (Wallin, 1994; Berendse et al. 2006). Finally, the consequences in the model, such as decay, sustainability or development of an organizational innovation, do not all seem relevant when the concept 'Sustainability' refers to an improvement trajectory, rather than to a particular organizational innovation.

The development of an innovation is then viewed as a natural part of the sustainability of an organizational innovation. Hence there might be only two alternative consequences: 'decay' (which could mean the start of a new improvement trajectory) or 'development' of the innovation in accordance with the improvement trajectory. Sustainability of a particular organizational innovation can only be temporal and seems to be less relevant in rapidly changing environments.

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Standardization as a tool to sustain an organizational innovation has been discussed by e.g. Shiba et al. (1993) and Alänge (1994). Besides standardization, narratives have been discussed as a potential tool for sustaining organizational change by creating shared priorities and support for a change process (Bartel & Garud, 2009). One role of the narrative is to create sense in the change by connecting it to the past and to the future of the organization (commonly visualized in a "road map" (Wallin, 1994)). This might be of extra importance when the change is perceived as disrupting the historical path of the organization, and when a reinterpretation of the past might be necessary in order to make sense of future changes. The narrative could according to the authors be viewed as a tool to create an organizational memory of its innovations, which could also be generative for future ideas and changes.

Berendse et al. (2006) also emphasize the importance of narratives in organizational change: “*Conceptualizing organizational life as story-making or organizations as story-telling systems contributes to our understanding of organizational change*”. The authors viewed narratives as important sense-making devices and “...they provide an important insight into the everyday processes of negotiating meaning among organizational actors”. Narratives, however, are not only important in a specific change process but could also be an important device to build a strong culture, which in turn could emphasize the importance of constant change. In this light, it can be speculated whether narratives are important for the organizational identity and thus for the identity of the people working in the organization. If this were the case, a narrative would influence not only the perception of employees, but also potentially the employees’ behavior. A final note in regard to narratives is the importance of trustworthiness. In order for a narrative to be effective, that is, influence the perception and behavior of employees in a way planned by management, the narrative needs to be trustworthy. This is achieved, among other things, when the narrative is mirrored in the behavior and communication of management. If the narrative is not trustworthy, the effect can be quite destructive both for a single change process and for the company overall.

Finally, as was seen above, the role of management and leadership is important for sustaining an organizational change. However, an implementation of a major organizational innovation can take longer than the time a CEO on average stays in office⁵⁰. For this reason there is a need for a “higher level” of influencers able to ensure the sustainability of the innovation or improvement trajectory. This higher level could consist of the owners and board. However, in the selected literature on the sustainability of, or creation and diffusion of, organizational innovations, the roles of the board or owners are rarely discussed. This might seem peculiar since the board can be assumed to affect investment decisions on any innovation, and specifically so for major innovations. Further, the board could provide access to resources and networks, and thereby facilitate inter-firm diffusion of ideas and enhance a firm’s credibility and legitimacy (Bonn & Pettigrew, 2009). Finally, a board could ensure macro-stability when implemented major organizational innovations require many years to be fully implemented.

2.3. Hypotheses

2.3.1. Interactions among the Marketing Innovation and Organizational Innovation

It is obvious that firms have different levels of innovative capabilities, nonetheless innovative activities need to be focused on many aspects simultaneously such as new products, new organizational and marketing practices or administrative systems, and new process technologies (Lin and Chen, 2007; Walker, 2008). Moreover, as Damanpour and Evan (1984) stated a balanced rate of adoption of organizational and marketing innovations are more effective in aiding firms to preserve and improve their level of market performance than implementing them alone. Although innovation literature does not reveal a conclusion whether a specific innovation type is likely to provide more or less an impact on organizational sustainability, it can be concluded that innovations influence each other and need to be implemented in conjunction (Walker, 2004).

In this study therefore we discuss the relationships among the two types of innovation that we try to measure. Findings in the previous research imply that marketing innovations leading to administrative and structural renewal or improvement is a facilitator for organizational innovations. For instance, Damanpour et al. (1989) found that marketing innovations led to

organization innovation in public libraries; they also suggested conducting further research in other types of firms to generalize their findings. Similarly, Staropoli (1998) emphasized the importance of customer satisfaction and customer perceived value mechanisms to enhance organizational innovations in the pharmaceutical industry, while Germain's study (1999) revealed that market structural characteristics might be significant predictors of organizational innovations in the logistics sector. More recently and specifically, Walker (2008) announced that marketing and service (or product, price, promotion, and place) innovations were found to be interrelated in a study on public organizations, and that additional research was required to clarify these findings. Considering the existing descriptive and empirical literature, we argue that marketing innovations, or in other words, renewal in the form of marketing strategy improvements leading to the betterment of intra-organizational coordination and cooperation mechanisms would contribute to the formation of a suitable inner environment for the organization's innovations. Therefore we hypothesize that:

Hypothesis 1: There is a positive relationship between the marketing innovation and organizational innovation.

2.3.2. Interactions among the Organizational Innovation and Strategic Innovation

Li et al.'s (2007) study on Chinese firms showed us that organizational and strategic innovations were significantly correlated to each other. However, recent literature does not provide us with explicit empirical results for the direction of this relationship. Still, some indirectly related recent findings may exist. For instance, Oke's study on British firms (2007) revealed that developing both vertical and horizontal path on organizational decision making processes was necessary to pursue incremental strategic positions in industry, implying that the improvement of the decision making processes is a driving force for the success of strategic (competitiveness and/or advantages) innovations. Thus innovative solutions providing the steps of the decisionmaking processes with newly improved competitive advantages - such as production quality, value, speed, and low cost- can increase the chance of the product's new components, ingredients, technical specifications, functionalities, etc. to meet the needs and desires of the customers better than before. Hence, the following hypothesis follows:

Hypothesis 2: There is a positive relationship between the organizational innovation and strategic innovation.

2.3.3. Interactions among the Organizational Innovation and Diffusion Innovation

There is indeed a mutual support between these two types of innovations but it is more common that diffusion of innovations are shaped through changes in the markets and customer expectations, and moreover the organizational resources (Rogers, 2003). Customer driven markets have assigned increased importance to the diffusion function. Customer need is tried to be fulfilled through organizational resources and innovations, which create possibilities for further product innovations (Peres, Muller, and Mahajan, 2010). Therefore we hypothesize that:

Hypothesis 3: There is a positive relationship between the organizational innovation and diffusion innovation.

2.3.4. Interactions among the Organizational Innovation and Market Differentiation

Market differentiation is the combination of overall organizational achievements as a result of renewal and improvement efforts done considering various aspects of firm innovativeness, i.e. processes, products, organizational structure, etc. Therefore organizational innovation is a composite construct (Hagedoorn and Cloudt, 2003; Li & Zhou, 2010; Akdag & Zineldin, 2011). based on various performance indicators pertaining, for instance, to the new patents, new product announcements, new projects, new processes, and new organizational arrangements. In the light of the above discussions, we are now ready to propose that organizational innovations have positive effects on firm market differentiation.

Hypothesis 4: There is a positive relationship between the organizational innovation and market differentiation.

2.3.5. Interactions among the Strategic Innovation and Market Outstanding Performance

Strategic innovations can actually enhance the firm market performance in several aspects. Particularly, four different performance dimensions are employed in the literature to represent firm market outstanding performance (Antonicic and Hisrich, 2001; Hornsby et al., 2002; Hagedoorn and Cloudt, 2003; Yilmaz et al., 2005). These dimensions are superior marketing to ROI performance, net marketing contribution to sales, marketing net profit margin, and marketing contribution to stock price. Strategic innovations has a considerable impact on market outstanding corporate performance by producing an improved market position that conveys competitive advantage and superior performance (Walker, 2004). A large number of studies focusing on the strategic innovation-performance relationship provides a positive appraisal of higher innovativeness resulting in increased market corporate performance (Olson and Schwab, 2000; Hult and Ketchen, 2001; Calantone et al., 2002; Garg et al., 2003; Wu et al., 2003). Value creation and strategic maneuver innovations are the most common strategic innovation types examined. The studies by Olson and Schwab (2000), Knott (2001) and Baer and Frese (2003) focus merely on value innovations while studies and Li and Atuagene-Gima (2001) report on strategic maneuver innovations. Many of these research embrace more positive association between strategic innovations and market performance. As Miller (2001) stated most firms seek strategic innovation to gain competitive advantage in their market. Generally, researchers stressing that strategic innovations, were equally essential to the growth and effective marketing activities of a firm (e.g. Damanpour and Evan, 1984, Damanpour 1991). They indicate that more strategically innovative firms place more emphasis on marketing techniques (Baldwin and Johnson, 1996) and reach sustainable levels of market higher performance (Hult and Ketchen, 2001; Guan and Ma, 2003). Wolff and Pett (2004) and Walker (2004) conducted comparative research for the effects of strategic innovations on market performance. They indicated that particular resource improvements are positively associated with firm market growth. Gopalakrishnan (2000) broadened the topic while emphasizing that strategic innovation speed and magnitude were also relevant innovativeness features both of which had a positive effect on firm market performance. Lin and Chen (2007) associated strategic innovations with increased firm market sales; and they argued that strategic innovations rather than technological innovations appeared to be the most vital factor for total market sales. On the other hand, Johnne and Davies (2000) ensured that strategic innovations increase sales by increasing product consumption and yield additional profit to firms. Moreover, Oke (2007) in a recent empirical study on British firms showed that strategic innovations were found to be related to market outstanding performance.

Hypothesis 5: There is a positive relationship between the strategic innovation and market outstanding performance.

2.3.6. Interactions among the Diffusion Innovation and Market Outstanding Performance

Diffusion innovations is seen in the literature as one of the most important drivers of other aspects of market outstanding performance thanks to the formation of an organizational learning climate and/or orientation with continuous efforts for improvements, renewals, exploration, and learning from failures and adaptation to rapidly changing competitive environment. For instance, Han et al. (1998) emphasized diffusion innovation as the synergetic combination of the results of technical and administrative innovations contributes positively to market growth and profitability. They assert also that diffusion innovation is the missing link between organizational strategic orientations and market superior performance. Damanpour and Evan (1984) indicated that organizations can cope with environmental challenges by successfully integrating technical or administrative changes into their organizational structure that improve the level of achievement of their goals. Accordingly, diffusion innovation are done in general to meet such production and marketing high goals as improvement in product quality, reduction in production cost, increase in market share, creation of new markets, and increase in production flexibility (Quadros et al., 2001).

Diffusion innovations can exert then positive effects on firms' production, market and market performances in the long-term; however, in the short run, initiated investments and internal resource usages might cause possible losses at first. Lawless and Anderson (1996) stated that adoption of new technologies for diffusion innovations involves an initial penalty. Similarly Damanpour (1984) emphasized that generally a serious time period may pass to observe positive impacts of diffusion innovations on market performance. For this reason, impacts of diffusion innovative performance are firstly associated to the marketing aspects of corporate performance, such as increased customer satisfaction or production speed, which will lead to higher financial returns later on. In brief, once the diffusion innovation performance improves, production and marketing performances will also ameliorate and then through their mediation the financial performance will start to improve. Diffusion innovation especially in the form of new product success is linked in the literature to an increase in sales and market shares, since it contributes considerably to the satisfaction of existing customers and gaining of new customers (e.g. Pelham, 1997; Wang and Wei, 2005). It is also possible to assert that in addition to new product success, success in marketing, process and organizational innovations together lead to a general increase in customer satisfaction and direct more customer attention towards the innovative firm.

Hypothesis 6: There is a positive relationship between diffusion innovation and market outstanding performance.

2.3.7. Interactions among the Market Differentiation and Market Outstanding Performance

Market differentiation, as a combination of achievements done in of all its elements –quality, flexibility, speed- is also seen as one of the direct drivers of profitability (e.g. Chenhall, 1997), thus effectiveness and efficiency in market management would lead to outstanding profitability. Further empirical studies confirm this assertion (e.g. Worthington, 1998). For instance, Fullerton and McWatters (2001) indicated that firms that have invested more in market differentiation practices benefit from production or operations performance, i.e. speed,

quality, flexibility, and cost efficiency, seem to be highly related to the market outstanding performance in market share, market pioneering, and stock price and product leadership according to the past literature (e.g. Quadros et al., 2001). For instance, according to Koufteros and Marcoulides (2006) continuing market differentiation efforts foster firm performance which increase the speed of organizational achievement in their outstanding level of market performance. Thus accordingly technological advancements can easily be incorporated and design or quality deficiencies are overcome faster than the competitors.

Hypothesis 6: There is a positive relationship between market differentiation and market outstanding performance

2.3.8. Interactions among the Market Outstanding Performance and Organizational Sustainability

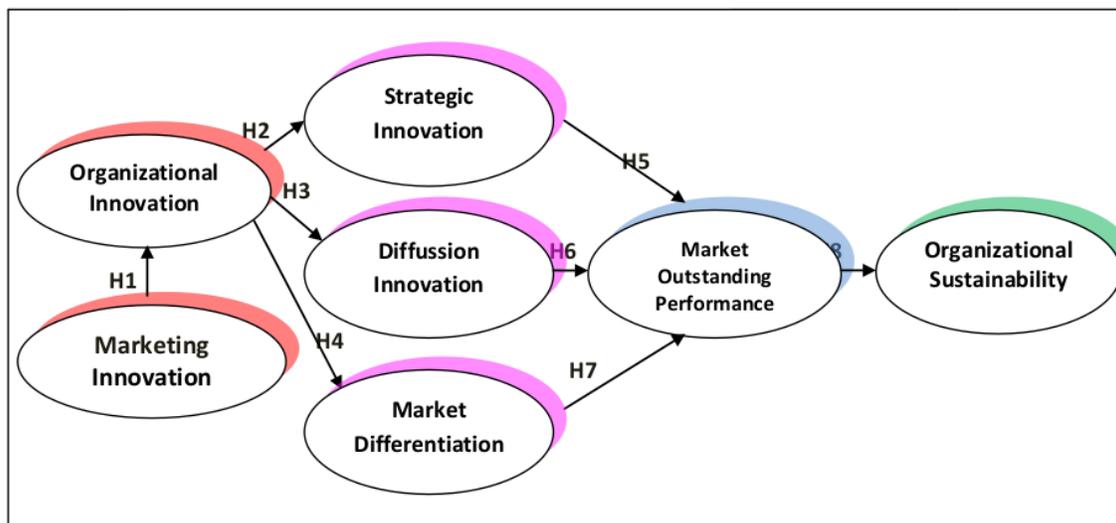
Gonzalez-Benito (2005) pointed out potential of the market outstanding performance function as a source of sustainable competitive advantage for the company. Marketing performance as a combination of organizational success in improving speed, quality, flexibility, and cost efficiency in the daily operations would lead logically to the betterment of market position and financial returns. The past empirical literature already confirms that the market behind setting and contribution such marketing ROI as increasing flexibility for external adaptation, quality for customer satisfaction, speed for dependability, and cost reduction for profitability is to try to increase overall organizational sustainability at the end (e.g. Alpkam et al., 2002; Alpkam et al., 2003). Specifically for the market-organizational sustainability relationship, Li (2005) reported that marketing capabilities -such as customer perceived value, speed of delivery, etc.- contribute to the market outstanding performance by increasing satisfaction of the customers and by improving customer relations, and make the organization enjoy the superior marketing ROI and marketing profit contribution as a source of organizational sustainability. In today's customer-driven market, where customer base is a key to achieving better financial results, market performance is seen as one of the most important sources of organizational financial sustainability (e.g. Li, 2000) since, market share and sales growth may directly contribute to the financial goals thanks to the increasing amount of price premiums and sales revenues and decreasing amount of marginal unit costs leading to a significant increase in the overall organizational sustainable profitability (e.g. Buzzel and Gale, 1987; Venkatraman and Prescott, 1990, Wang and Wei, 2005).

Hypothesis 8: There is a positive relationship between market outstanding performance and organizational sustainability

2.4. Research Frameworks

Derived from the existing literature, the proposed relationships among marketing, and organizational innovations to organizational sustainability are discussed and hypotheses related to these variables are developed. The research framework generated in this study is illustrated in *Figure 1*. This framework briefly proposes that the marketing, and organizational of innovations implemented in manufacturing firms will enhance their strategic innovation, diffusion innovation, and market differentiation which will then improve market outstanding performances that led the organization to become more sustainable in their competitive business landscape.

Figure 4: Research Model



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III. METHODOLOGY

As this research designed to examine the effects of five types of innovation on the dimensions of firm performance, a survey questionnaire was followed developed by Geletkanyez & Hambrick (2012). The questionnaire consisted of 49 survey questions along with some banking demographic questions. The sample used for data collection included the banking companies listed in Bank of Indonesia (BI) and it represented the commercial main banking sectors. A total of 10 banking companies were selected from 5 manufacturing sectors. The companies from each sector were selected according to their proportion in total banking firms listed in BI. Hence the sample drawn is the true representative of each of five sectors.

The questions represented five types of innovation (marketing, organizational, strategic, diffusion, and market differentiation) and seven dimensions of market outstanding performance (marketing ROI, marketing net profit margin, firm stock price, market share, customer life time value, brand financial value, customer loyalty index) and also organizational sustainability (consumer perceived value, sustainable superior profit, market leadership, global consumer satisfaction index, corporate social responsibility to society, corporate social responsibility to environment, corporate banking accountability). All the questions are shown to be reliable and valid in the previous research of Geletkanyez & Hambrick (2012). The questionnaires were filled by marketing, legal, finance, branch manager and area management executives working presently of Functional Manager, Business Manager, Corporate Manager in BI listed companies. 350 questionnaires out of 450 came back filled. Thus the response rate was found to be 78%. 10 out of 450 questionnaires were improperly filled thus excluded from further consideration. In this way actual response rate came out to be 76% which is sufficient for such kind of research.

IV. RESULTS & DISCUSSION

The research findings reflected the following factor solutions and reliabilities: marketing organizational innovation (7 items, alpha 0.897), organizational innovation (7 items, alpha 0.778), strategic innovation (7 items, alpha 0.952), diffusion innovation (7 items, alpha 0.928), market differentiation (7 items, alpha 0.851), market outstanding performance (7 items, alpha 0.896), and organizational sustainability (7 items, alpha 0.971).

In this study, with the help of SPSS version 17 (factor and reliability analysis), factor loadings and Chronbach's alpha of innovation types and dimensions of organizational sustainability have been produced individually.

4.1. Correlation

As already discussed in the theoretical part that the basic aim of this study is to examine the relationship among five innovation types and market firm performance; therefore, presents correlation matrix along with mean and standard deviation of study variables. The significant correlation results show (**correlation is significant at the 0.01) that each type of innovation is significantly correlated with each dimension of market outstanding performance confirming initially all the hypotheses of this study.

Table 1.
Reliability Test of Manifest Variable

Variable	Cronbach's Alpha	Category
MI	.789	Reliable
OI	.768	Reliable
SI	.751	Reliable
DI	.796	Reliable
MD	.783	Reliable
MOP	.765	Reliable
OS	.776	Reliable

Cronbach Alfa Value are exceeding than 0.70, this mean that all of the indicator research were classified as reliable.

Table 2.
Coefficient of Determination Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	1,00	1,00	1,00	0,000

The table 2 shows the high correlation between all the research variable, as indicated by the value of R Square 1.00. In other words, MI and OI can give a good explanation of influence for OS.

4.2. Regression Analysis

Linear regression analysis has been carried out to analyze the effects of five types of innovation on two types of organizational performance. There are some major findings of regression analysis for each hypothesis of the study:

1. Marketing innovation has significant positive effect on organizational innovation. The significant adjusted R2 value in Table 4 shows that process innovation explained 61,9%

- of the variance in organizational innovation. Furthermore, standardized coefficient and T values are also significant ($p < 0.005$). Hence H1 is confirmed.
2. Although, organizational innovation has significant positive effect on strategic, diffusion and market differentiation innovation; however, its impact on these innovation is greater on strategic innovation compared to the other innovation types. The significant adjusted R2 values as shown in depict that organizational innovation explained 31.8%, 20%, and 18.2% of the variance in strategic innovation, diffusion innovation, and market differentiation respectively. Moreover, standardized coefficient and T values are also significant ($p < 0.005$). Hence, H2, H3, H4 is supported.
 3. Strategic innovation has significant positive effect on market outstanding performance. The significant adjusted R2 value in shows that strategic innovation explained 58.7% of the variance in organizational innovation. Furthermore, standardized coefficient and T values are also significant ($p < 0.005$). Hence H5 is confirmed.
 4. Diffusion of innovation has significant positive impact on market outstanding performance. The significant adjusted R2 value as that diffusion innovation explained 47.9% of the variance in product innovation. Moreover, standardized coefficient and T values are also significant ($p < 0.005$) which confirms H6.
 5. Market differentiation accounts for major variation in market outstanding performance has 39.3% influence, compared with strategic and diffusion innovation. The significant adjusted R2 values depict that market differentiation of the variance in market outstanding performance. Furthermore, standardized coefficient and T values are also significant ($p < 0.005$). Hence, H7 is supported.
 6. Finally, market outstanding performance has significant positive impact on organizational sustainability. The significant value of adjusted R2 which depicts that market outstanding performance explained 56.5% of the variance in organizational sustainability. In the same way, standardized coefficient and T values are also significant ($p < 0.005$). Hence, H8 is confirmed.

Table 3.
Hypothesis Test of FANNOVA

Model	Sum of Squares	Df	Mean Square	F	Sig
1 Regression	75,78	50	1,090	1996,05	0,000
Residual	0,000	65	0,000		
Total	87,89	98			

F-Value shows that the research models were fit with all the data. As F-Value of 1996.05 is greater than probability base value of $0.000 \leq 0.001$, which means the research data were also qualified.

The following table 4 shows the hypotheses results as:

Table 4.
Hypotheses Tests

Test	Variable	Estimate	Critical Ratio	t-table	Category
H ₁	MI-OI	97,05	7,63	1,96	Excepted
H ₂	OI-SI	67,30	8,25	1,96	Excepted
H ₃	OI-DI	89,78	0,27	1,96	Excepted
H ₄	OI-MD	87,99	3,12	1,96	Excepted
H ₅	SI-MOP	95,19	8,10	1,96	Excepted

H ₆	DI-MOP	90,98	29,98	1,96	Excepted
H ₇	MD-MOP	76,80	10,19	1,96	Excepted
H ₈	MOP-OS	82,96	5,17	1,96	Excepted

The test of all of the hypotheses in this research can be a good evidence that prove all of the ninth hypotheses were true. This also proved that the research literature background was classified as *eligible*.

4.3. Structural Model Analysis

F-Value shows that the research models were fit with all the data. As F-Value of 28.192 is greater than probability base value of $0.000 \leq 0.001$, means the research data were also qualified.

Table 5.
Hypotheses Tests, F-Test

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.	Collinearity Statistics	
	Constant					Tolerance	VIF
Constant	0,86	2,81		,697	,891		
MI	,005	,077	,005	,060	,970	0,000	1,00
OS	1,000		,788	28,192	,000	0,000	

Dependent Variabel: CA

The table 5 shows that there is no multicollinearity correlation between all of the research variables, as the value of VIF= 1,00.

Table 6.
Model Fit-Test

Goodness of Fit Index	Cutt-off Value	Model Result	Category
GFI	$\geq 0,9$	0,96	<i>Good Fit</i>
RMSEA	$\geq 0,9$	0,93	<i>Good Fit</i>
NFI	$\geq 0,9$	0,91	<i>Good Fit</i>
IFI	$0,8 \leq IFI \leq 0,9$	0,87	<i>Marginal Fit</i>
CFI	$\geq 0,9$	0,97	<i>Good Fit</i>
RFI	$\geq 0,9$	0,98	<i>Good Fit</i>

The table 6 shows that the research models were classified as *Good Fit*, which means the research model were based on good, valid and updates relevant theory background.

V. CONCLUSION

The paper accounts for the study of innovativeness, identifying the relationship among innovation types (product process, marketing and organizational) and dimensions of firm performance (innovative, market, production and financial) in the manufacturing sector of

Pakistan. The sample drawn was 10 banking companies listed in Bank of Indonesia (BI). The findings of study support the title that market outstanding performance and organizational sustainability can be achieved better from increased innovativeness in marketing, organizational, strategic, diffusion, and market differentiation of the firms. All the hypotheses of the study are supported.

Marketing of innovation also associate with organizational innovation. The study found that the effect of marketing innovativeness is stronger than organization innovation, as marketing innovativeness explained a larger proportion of organizational innovation (61.9%). This study also found that marketing innovation leads to organization innovation, while organization innovation is essential for strategic, diffusion, and market differentiation innovation.

All three types of innovation have direct association with market outstanding performance. As compared to other innovation types, strategic innovation explained a large proportion of market outstanding performance (58.7%), followed by diffusion innovation, and market differentiation innovation (47.9%, & 39.3%). Finally, market outstanding performance has a more larger significant impact on organizational sustainability explaining 56.5% of its variance.

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The results of this study are in accordance with many previous researchers. As Hurley & Hult (1998) found that to create an environment which is friendly to marketing innovation and learning, organizational innovation is very essential. Camisón & Villar-López (2012) also concluded that marketing innovativeness leads to organizational performance. Similarly Geletkanyez & Hambrick (2012) found the organizational innovativeness to be the strongest driver of strategic performance. Firms stand to benefit from investing in their capacity for diffusion and market differentiation innovation (Mol & Birkinshaw 2009). The findings of Damanpour, Walker and Avellaneda (2009) also revealed that market outstanding performance can be attained with the help of certain strategic, diffusion, and market differentiation innovation types.

Overall positive relation between five types innovation to market outstanding performance and organizational sustainability has been identified by Bowen et al. (2010). The results show that all hypotheses of study are empirically supported.

5.1. Theoretical Implications

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The previous researchers examined the relationship between innovation types and firm performance but most of these studies are conceptual (e.g. Enzing, Batterink, Janszen & Omta, 2011; Walker, 2004; Robinson, 1990). In line with the research work of Geletkanyez & Hambrick (2012), this study provides empirical relationship between innovation types and firm performance. Also, previous studies considered the general innovation and firm performance (Bowen et al., 2009); however, this study further considers four types of innovation and four dimensions of performance. Hence, this study is the empirical evidence of many previous conceptual studies which proposed that these five innovation types are positively related with market firm performance. In addition, this study fills the research gap in this particular area in Indonesian banking sector.

5.2. Managerial Implications

In order to sustain a competitive edge in today's market, corporate managers have a twofold mission of continuously generating extra value for their customers whilst thriving to cut costs and increase their productivity. To make this mission possible, the results of this study suggest that business leaders of the banking firms should give additional importance to different types of innovations for attaining high organizational sustainability. Moreover, the results of this study also suggests that organizational leaders should: first allocate responsibility down the organization, second recognize their pivotal role in managing or orchestrating innovation engagement themselves and third ensure the organization structure is fully in place to implement well-articulated innovation strategy. Therefore, firms which are empowered with resources to increase their innovation capabilities are more likely to increase their market performance. Product, place, promotion and place would lead to larger number of new products and service projects. Managers should pay more attention to organizational innovation as it not only significantly relates with other innovation types but also has a stronger positive impact on organizational sustainability. Marketing innovation is the main vehicle to convey the positive effects of innovation types to market outstanding performance. Market performance in shape of customer satisfaction, sales and market share can be enhanced through strategic innovation, hence, should be given due importance. Findings of this study support the fact that innovativeness is the only way for a firm to gain a sustainable competitive advantage and to raise its performance (Porter, 1990; Drew, 1997). Diffusion innovation is also crucial as it is the main driver for process innovation which successively heightens the innovative market performance. In short, managers should appreciate investments for bringing innovation capability to sustain the organizational competitive advantage and increase the profitability of the firm.

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5.3. Limitations and Future Research

The limitations of this study would become the focus of future studies. Marketing and organizational innovation and market outstanding performance in organizations sustainability vary with sector to sector (Damanpour, 1996; Vega-Jurado et al, 2008). Furthermore, Evangelista et al. (1997) stated that organizational innovation not only varies with sector but also with size of the firm which is overseen in this present research. Therefore, there is a need of comparative research on the basis of size and sector. Secondly, there is a significant role of environment on the innovation adoption (Olavarrieta & Friedmann, 2008; Calantone et al, 2003) which is not considered in this present research and finally there is a need for future research considering the cross cultural differences.

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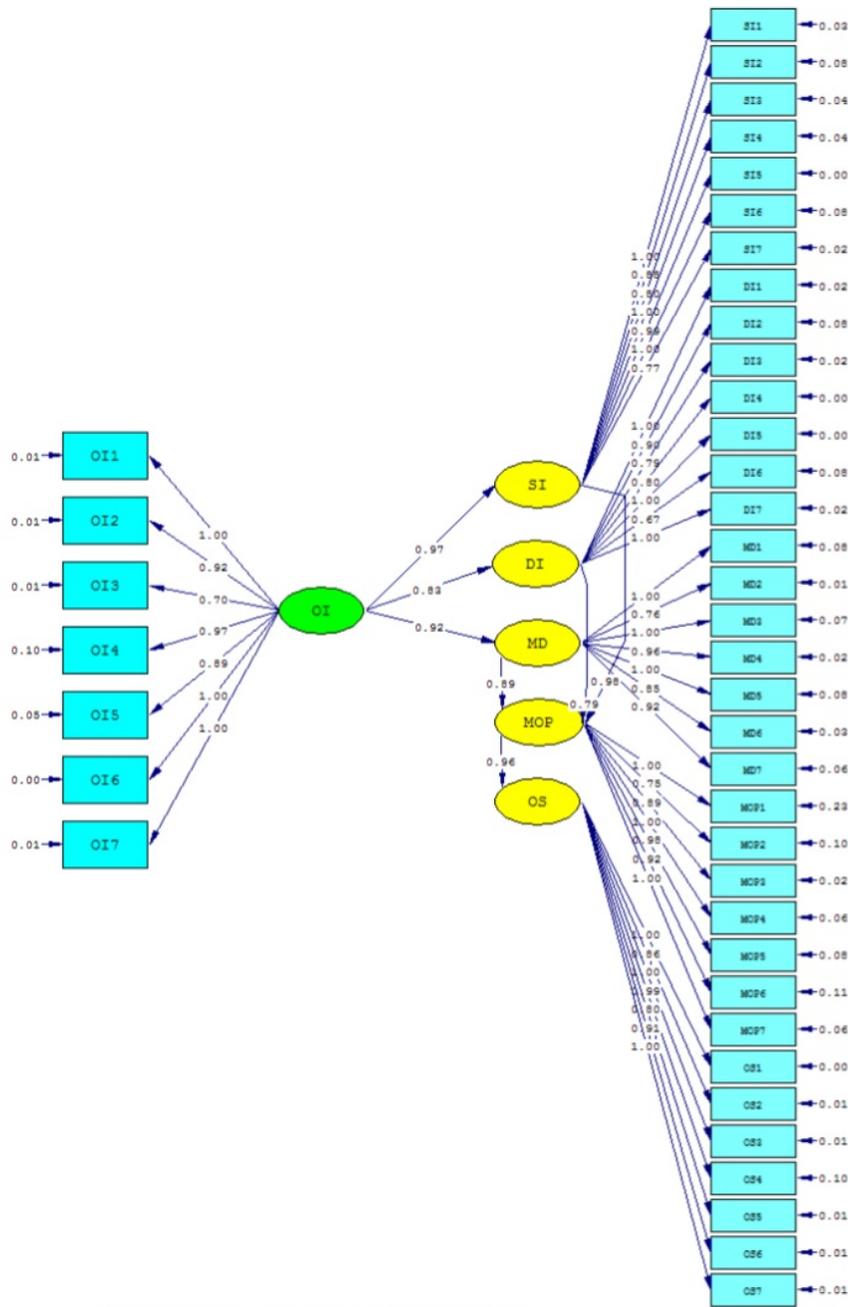
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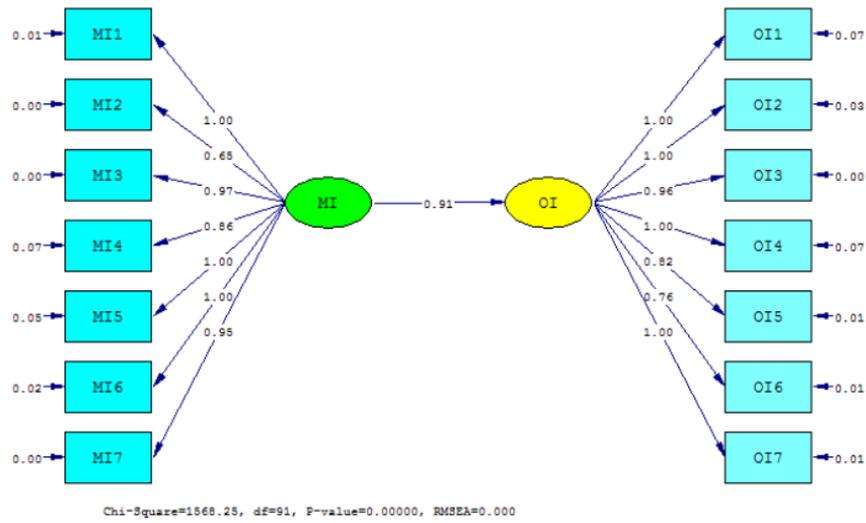
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APPENDIX1. LISREL OUTPUT 1&2



Chi-Square=15257.15, df=861, P-value=0.00000, RMSEA=0.000



APPENDIX 2. SAMPLE PROFILE

Number	Banks Name	Executive Management*
1.	Bank Central Asia	40
2.	Mandiri	40
3.	CIMB	40
4.	Danamon	40
5.	Permata	40
6.	BTPN	40
7.	BNI	40
8.	BRI	40
9.	STANDARD CHARTERED	40
10.	ANZ	40
	RESPONDENTS	400

* Level of Executive Management = Functional Manager, Business Manager, Corporate Manager.

APPENDIX 3. QUESTIONNAIRE SAMPLE

A. General Information: Please, put cross (X) for your identification.

1. Gender: Male ____ Female ____
2. Status: Single ____ Married ____ Others ____
3. Age: 20-29 ____ 30-39 ____ 40-49 ____ 50-60 ____ years
4. Nation: Indonesia ____ Lainnya ____
5. Bank: _____ Time of Operation: ____ years
6. Banking Executives experiences : ____ years
7. Web Adress: _____
8. Staff Level: Functional Manager ____ Business Manager ____ Corporate Manager ____
Others ____
9. Education: _____
10. Professional Qualification: _____
11. Banking Working experiences: 1-5_ 5- 10 ____ 11-20__ 21- 30__ tahun

Instruction: Please, mind to fill the statement bellow truly, based on your banking working experiences. The results will confidentially recorded.

E. MARKET DIFFERENTIATION		1	2	3
4	5			
		SA	A	N
DA SDA				
<ol style="list-style-type: none"> 1. Our services are unique and nobody but our company can offer them. 2. It is difficult for our competitors to imitate us. 3. Our advantages are embodied in the company and not in individuals - nobody can copy us by stealing our employees away from us. 4. Nobody can copy our corporate routines, processes and culture. 5. We are constantly investing in generating new capabilities that give us an advantage compared to our competitors. 6. It took us several years to build our brand name reputation - nobody can easily copy that. 7. If ever there was a new way of serving customers, our company would be able to offer that. 				

F. MARKET OUTSTANDING PERFORMANCE		1	2	3
4	5			
		SA	A	N
DA SDA				
<ol style="list-style-type: none"> 1. Our services has exceeded our competitors. 2. Our customer satisfaction has exceeded our competitors. 3. Our repeat business has exceeded our competitors. 4. Our growth has exceeded our competitors. 5. Our stock price has exceeded our competitors. 6. Our global consumer loyalty has exceeded our competitors. 7. Our brand trust has exceeded our competitors. 				

***YOUR PARTICIPATION IS HIGHLY APPRECIATED, THANK YOU*.**

The Influence Marketing Innovation and Organizational Innovation, to Strategic Innovation, Diffusion Innovation and Market Differentiation, to Market Outstanding Performance, and Organizational

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