Role of marketing in strategic management

Introduction

During the last decade there has been a resurgence of interest by researchers on the role of marketing in strategic management. Some researchers observe that in many international organizations, the marketing function has lost its formal organizational position and, more significantly, the management belief in marketing as a strategic force has been weakened (Piercy, 1998). However the judgement that the strategic role of marketing is declining is both controversial and arguable since there is little or no empirical evidence directly relevant to the issue (Day, 1992). ‘ It remains that little is understood of (1) the relevant contribution and centrality of marketing to business strategy formation; (2) the empirical testing of this contribution in areas of particular strategic relevance; and (3) the business performance implications of marketing’s contribution to business strategy formation’ (Morgan et al., 2000, p. 342). Day (1992) argues that one way marketing can make a more significant contribution to the theory and practice of strategy is by explicit articulation of marketing capabilities. ‘ A concept of market competencies that is more broadly specified and sharply articulated in strategic terms should help overcome the prevailing view of marketing within strategic management as a narrowly engaged operating function’ (Day 1992, p. 326). Joining this debate, Kerin (1992) suggests that the functional role of marketing in the strategy dialogue has been overlooked by the marketing and related disciplines and that this oversight represents an opportunity for marketing scholars to pursue important issues in strategic management. He argues that the new agenda for research should explore organizational distinctive capabilities as they relate to innovative and entrepreneurial firm behaviour. ‘ The functional role of marketing in strategic management deals with the entrepreneurial work of the organization and organizational renewal and growth; in short, innovation' (Kerin, 1992, p. 332). However, innovation and its parent, entrepreneurship, have traditionally been given little recognition in the strategic marketing dialogue (Day and Wensley, 1983).

The capability-based theory of competitive advantage suggests that firms possessing distinctive capabilities can gain competitive advantage. Although the literature in this area of research has grown in significance, literature specifically examining the role of marketing capability in innovation-based competitive strategy has been limited. In addition, past research reflects several inadequacies in the conceptualization of innovation and sustained competitive advantage constructs. Innovation research has been biased towards technological innovation, whereas empirical evidence suggests that firms pursue both technological and non-technological innovation and both types of innovation lead to sustained competitive advantage. Competitive advantage has been conceptualized in terms of financial indicators of performance, and sustained competitive advantage was believed to be simply a competitive advantage that lasts a long period of calendar time. The literature in general reflects the need for a well-founded measure of sustained competitive advantage. In an attempt to address these key issues, this article presents the results of a study that explores the role of marketing capability in organizational innovation and sustained competitive advantage. The study contributes to strategic marketing theory by developing, refining and testing measures of entrepreneurship, marketing capability, organizational innovation and sustained competitive advantage. The links between these constructs are explored and it is argued that marketing capability plays a critical role in organizational innovation-based competitive strategy.

This article proceeds as follows. First, the theory of sustained competitive advantage is examined, focusing on the role of distinctive capabilities in innovation-based competitive strategy. Second, the conceptual framework describing the focal constructs and theoretical relationships intended to be tested is discussed. Third, the method used to test the hypotheses is discussed. Next, the results, based on analysis of data collected from 324 manufacturing firms, are presented. The paper concludes by discussing implications for strategic marketing theory and practice, identifying limitations of the study and providing directions for future research.

Competitive Advantage And The Role Of Distinctive Capabilities

The capability-based theory suggests that a firm can achieve competitive advantage through distinctive capabilities possessed by the firm (Grant, 1991; Prahalad and Hamel, 1990; Hayes et al., 1996) and that the firm must constantly re-invest to maintain and expand existing capabilities in order to inhibit imitability (Mahoney, 1995). The resource-based view of competitive advantage within which the capability-based theory has evolved over the last few decades suggests that firms are bundles of resources and capabilities (Barney, 1991; Peteraf, 1993). In exploring this model, we concur with recent contributors to the literature who distinguish capabilities from resources (Grant, 1991; Teece et al., 1997; Mahoney and Pandian, 1992). This distinction provides a better explanation of the value creation and service delivery process. Some researchers argue that a resource-based strategy is often not enough to support a significant competitive advantage. Winners in the global marketplace have been firms that can demonstrate timely responsiveness and rapid and flexible product innovation (Teece et al., 1997). Resources do not exclusively determine what the firm can do and how well it can do it. A key ingredient in this relationship is strategic leadership (Grant, 1991). In the current study, organizational distinctive capabilities are defined as the organization's capacity to perform a range of organizational routines (sequences of coordinated actions) for the purpose of delivering products and services to the market in a manner that outperforms competitors.

The capability-based theory differs from the other competitive strategy models in that the framework recognizes the crucial role played by the entrepreneurial key decision-makers of the firm in building and sustaining a competitive advantage (Lado et al., 1992; Grant, 1991; Hayes et al., 1996). The competitors' inability to duplicate the distinctive capabilities (Grant, 1991, 1996; Hayes et al. 1996) or the ' capability differential' on which competitive strategy is founded (Coyne, 1986; Hall, 1993) is suggested as the key source of sustainability under the capability theory of competitive advantage. This view of sustainability of advantage has important implications for researchers attempting to capture the distinctiveness of a capability. As suggested in the literature, a distinctive capability is a set of things that organization does particularly well (relative to its competitors) (Selznick, 1957; Andrews, 1971; Snow and Hrebiniak, 1980). This paper, therefore argues that a distinctive capability should be operationalized in relative terms and not in absolute terms.

A growing number of researchers suggest that marketing capability contributes to commercial success of the products and services marketed by the firm (Day, 1994; O'Driscoll et al., 2000; Shantanu et al., 1999; Hooly et al., 1999). ' Marketing capability of a firm is reflected in its ability to differentiate products and services from competitors and build successful brands' and ' firms with strong brand names can charge premium prices in foreign markets to enhance their profitability as well' (Kotabe et al., 2002, p. 82). Vorhies (1998) found that a firm's business strategy, organizational structure and market information-processing capabilities had a positive impact on marketing capabilities development. O'Driscoll et al. (2000) suggest the need to examine marketing competence in a network perspective. Song et al. (1997) examined cross-cultural differences in marketing's contribution to new product development and found that marketing skills derived from marketing resources and the proficiency in conducting marketing activities are important for successfully developing new products. Morgan et al. (2000, p. 353) found that ' firms devoting attention to harnessing marketing input in all areas of the strategy formation process are able to realize significantly greater business performance pay-offs than those firms where marketing does not make a vital contribution'. These findings do not reflect a consistent body of knowledge on the role of marketing capability in competitive strategy. As viewed by some contributors to this research thrust, whilst research streams such as relationship marketing have gained prominence in marketing implementation research, ' a similar approach to valuing marketing capabilities and their performance impact is problematic but overdue. It is likely that little else will regain intellectual leadership for the discipline is meeting the challenge from competing paradigms in the cooperate boardroom' (Piercy, 1998. p. 233). As observed by O'Driscoll et al. (2000, p. 184), ' while it is generally acknowledged that the development of marketing competence is worthwhile and is associated most likely with superior firm performance, few studies have examined marketing competence in a strategic context'. The literature in general reflects the need to conceptualize the marketing capability construct in a manner that will capture its potential to contribute to the competitive strategy of the firm.

Conceptual Framework

During the last few decades the conceptual domain of the marketing function has been widely debated (Morgan and Strong, 1998). The role of marketing in business performance has been predominantly viewed within two streams of literature, namely market orientation (Kohli and Jaworski, 1990; Slater and Narver, 1995) and marketing's role within the strategy dialogue (Day, 1992; Kerin, 1992; Varadarajan, 1992; Piercy, 1998). Premised on these streams of literature, this paper defines marketing as that function of the firm dealing with the mobilization of organizational resources for the acquisition and integration of market-based knowledge to value creating activities of the firm; and the coordination of activities required for the firm to reach its targeted customers with superior products and services.

Literature suggests that marketing plays a key role in the competitive advantage process. The primary role of marketing within the competitive strategy is innovation (Kerin, 1992), which is viewed as a central concept in the search for differential advantage (Hutt et al., 1988). The customer value-based differentiation strategies will drive the firm's market research efforts, its selection of target-markets, its product development processes, its market communications programs, and its delivery processes (Day, 1994; Woodruff, 1997). These processes require many specific capabilities that enable the firm to carry out activities necessary to move its products or services through the value chain (Day, 1994). Strategic marketing literature assigns a prominent role to the entrepreneurial key decision-makers of the firm in the development of innovative products and services (e. g. Knight, 2000; Kerin, 1992). The capability-based theory of sustained competitive advantage in particular suggests that entrepreneurial decision-makers are the key factor driving the competitive advantage process. This is because they build and nurture distinctive capabilities that are needed to exploit superior value creating market opportunities. This suggests that entrepreneurship, innovation, marketing capabilities and competitive advantage process are strongly interrelated.

Based on the preceding discussion it is suggested that entrepreneurial firms pursuing innovation as a key thrust in their competitive strategy build and nurture distinctive marketing capabilities. In turn, marketing capabilities lead to higher organizational innovation intensity and sustained competitive advantage. In the forthcoming section the extant literature is reviewed, addressing inadequacies in past research in the conceptualization of these constructs. Interrelationships among entrepreneurial intensity, marketing capability, organizational innovation and SCA are examined.

Entrepreneurial Intensity

The literature suggests a positive association between ‘ entrepreneurship’ and growth-oriented efforts of the firm (Khandwalla, 1977). The entrepreneurial firm is generally distinguished in its ability to innovate, initiate change and rapidly react to change flexibly and adroitly (Namen and Slevin, 1993). Based on the firm-behaviour model of entrepreneurship (Covin and Slevin, 1986; Namen and Slevin, 1993) that has gained popularity among strategy researchers over recent years, entrepreneurship is conceptualized as a firm behaviour in which the firm displays innovativeness, proactiveness and risk-taking propensity in their strategic decisions.

Innovativeness refers to a corporate environment that promotes and supports novel ideas, experimentation and creative processes that may lead to new products, techniques or technologies. Risk-taking reflects the propensity to devote resources to projects that pose a substantial possibility of failure, along with chances of high returns. Proactiveness implies taking initiative, aggressively pursuing ventures and being at the forefront of efforts to shape the environment in ways that benefit the firm (Covin and Slevin, 1989). Entrepreneurship is conceptualized as a continuum using these three attributes that reflects the degree of ' entrepreneurial intensity' of the firm. Interestingly, firm-behaviour model of entrepreneurship has primarily evolved in technological innovation research. Research exploring the role of this model in the organizational capability building process and non-technological innovations has been limited.

Marketing Capability

Based on Day (1994), in the current study, marketing capability is defined as integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services and meet competitive demands. The importance of learning processes in the marketing capability development process has been stressed in recent research (Vorhies and Harker, 2000). Marketing capabilities are developed via learning processes when the firm’s employees repeatedly apply their knowledge to solving the firm’s marketing problems (Day, 1994; Grant, 1991, 1996).

In explicating the overall marketing capability of the firm it is important to examine the specific marketing processes that are adopted by firm in its competitive strategy. Expanding on Atuahene-Gima’s conceptualization of marketing capability (1993), this study identifies several processes which are used by firms in their efforts to reach target customers with value-added products and services.

The first process is customer service, defined as deeds, processes and performances (Zeithaml and Bitner, 1996) which are largely intangible tasks that satisfy buyer or user needs. A growing number of researchers suggest that superior customer service leads to competitive advantage (e. g. Easingwood and Mahajan, 1989; Morris and Westbrook, 1996). The second process is concerned with the effectiveness of promotional activities in gaining market share and sales growth. Promotional activities cover advertising, sales promotions, publicity and personal selling which are widely used tools to communicate with target markets. Third is the quality of sales people, which reflects the extent of sales-generating skills possessed by firms’ employees. The next area is the strength of distribution networks. To have a capability in channel management, relationships with distributors must be formed and effectively managed (Vorhies and Harker, 2000). The fifth process is the extent of resources committed for advertising, which is

operationalized as the advertising expenditure as a percentage of sales. Next is the firm's marketing research, which is defined as the set of processes needed to learn about customer needs particularly latent needs and to monitor competitor product and service offerings. The seventh is the ability to differentiate products (to boost the image of products by attributes other than prices such as superior quality, image or service) marketed by the firm. Product and service differentiation has been a key source of competitive advantage (Porter, 1990). The next area of importance is the speed of product introduction. Rapid development of new products and services is an integral component of innovation-based competition (Froehle et al., 2000). These eight processes are adopted in varying degrees by firms in their efforts to reach respective target markets. In this study, the overall marketing capability of the firm is operationalized using these marketing processes. With the aim of capturing the distinctiveness of the overall marketing capability, each of the processes discussed above will be measured relative to those of the firm's closest competitors. As a further indicator of the distinctiveness, respondents will be asked to rate the strength of each of the processes in comparison to those of firm's closest competitors.

Rizzoni (1991) establishes a link between entrepreneurship, organizational capabilities and innovation. He suggests that a firm pursuing an innovation-based strategy accumulates specific capabilities, which distinguish the firm from its competitors and enable it to face the variability of the environment.

Premised on the capability-based theory, this paper argues that entrepreneurial firms pursuing an organizational innovation-based competitive strategy build and nurture distinctive marketing capabilities. The need for marketing expertise in the entrepreneurial process has been stressed in the literature. For example, Nicholson (1986) argues that one of the critical factors for success of an emerging business is marketing, sales and service effectiveness. Similarly, the emerging marketing and entrepreneurship interface paradigm suggests that entrepreneurs possess marketing capabilities (Hills and La Forge, 1992; Carson and Grant, 1993) Accordingly, the relationship between entrepreneurial intensity and marketing capability is hypothesized as follows:

Hypothesis1: There is a positive relationship between entrepreneurial intensity and marketing capability.

Organizational Innovation

Firm innovation and the competitive advantage process are closely inter-related. Porter (1990) argues that firms create competitive advantage by conceiving new ways to conduct activities in the value-chain for delivering superior customer value, which is an act of innovation. This suggests that innovation leads to competitive advantage and innovation can occur in any value-creating activity of the organization. Similarly, all types of innovations can lead to sustained competitive advantage. Although the literature suggests that innovations can occur in any value-creating activity, suggesting that it should be conceptualized to cover a broad range of activities (Schumpeter, 1934; Porter, 1990; Rothwell, 1992), past innovation research is biased toward technological innovation. However, firms undertake both technological and non-technological innovations and all such innovations can lead to competitive advantage (AMC, 1995; Hyvarinen, 1990). This discussion, whilst suggesting that innovation can be a key source of competitive advantage, highlights the need to conceptualize this construct broadly in examining its influence on sustained competitive advantage. In this study, organizational innovation is defined as the application of ideas that are new to the firm, to create added value either directly for the enterprise or indirectly for its customers, whether the newness and added value are embodied in products, processes, services, or in work organization, management or marketing systems.

The strategic marketing literature assigns a dual role to marketing capability in innovation-based competitive strategy. Whilst marketing capability influences the innovation development stage, it also facilitates the market success of innovations. The latter suggests that the marketing capability leads to competitive advantage.

Marketing capability is critical at the product development stage where consumer needs and competition must be assessed and information shared for comprehensive new product ideas to be advanced into the development stage (Song et al., 1996). Past research suggests that firms must possess adequate marketing resources and skills in order to successfully develop new products (Calantone et al., 1993). New product development involves preliminary tasks such as market study and concept testing (Atuahene-Gima, 1995). Similarly a well-functioning interface between marketing and R&D is a prerequisite for successful product development (Calantone et al., 1993). Based on this discussion, we argue that marketing capability influences all types of innovations pursued by the firm. Accordingly, the relationship between marketing capability and organizational innovation intensity is hypothesized as follows:

Hypothesis2: There is a positive relationship between marketing capability and organizational innovation intensity.

Sustained Competitive Advantage

Competitive advantage can be conceptualized as a superior ‘ marketplace position’ that captures the provision of superior customer value and/or the achievement of lower relative costs, which results in market share dominance and superior financial performance (Hunt and Morgan, 1995). Much of the existing research uses superior financial performance or ‘ rent’ as an indicator of competitive advantage (Aharoni, 1993; Porter, 1990). Similarly, sustained competitive advantage is believed to be simply a competitive advantage that lasts a long period of calendar time (Jacobson, 1988; Porter, 1990). These views, particularly those advocating the use of financial indicators, have attracted criticism (Barney, 1991; Day and Wensley, 1988) and there is a need to conceptualize this construct incorporating well-founded indicators of sustainability of competitive advantage. Addressing this issue, Day and Wensley (1988) suggest strengthening financial indicators with comprehensive indicators of market advantages. One of the key ‘ competitor-centred’ methods of measurement is assessing the distinctive capabilities on which advantages have been founded (Day and Wensley, 1988). Premised on the capability-based model, this construct is operationalized as: whether the firm has gained superior financial and market advantages (Day and Wensley, 1988) and whether it is possible for competitors to duplicate the firm's competitive strategy (Barney, 1991; Grant, 1991) and distinctive capabilities on which advantages have been founded (Grant, 1991; Hall, 1993).

As observed earlier, the literature suggests that innovation leads to competitive advantage (Porter, 1990). Research examining innovation and firm performance suggests that innovation leads to higher performance (Hyvarinen, 1990; Rothwell, 1992; Lengnick-Hall, 1992). Innovative capabilities distinguish the more successful from the less successful growing small- and medium-size enterprises (Statistics Canada, 1994). Literature on export market penetration strategies suggests that innovation enables small firms to enter export markets and maintain or increase those markets once entry has been made (McKinsey and AMC, 1993; Brush, 1992).

Based on the preceding discussion the following hypothesis is advanced.

Hypothesis3: There is a positive relationship between organizational innovation and sustained competitive advantage.

Our earlier discussion on marketing capability's role in competitive strategy suggests that the marketing capability facilitates market success of innovations. Extensive research has shown that marketing activity proficiency to be positively associated with the market success of new products (Song and Parry, 1993; Calantone and di Benedetto, 1988; Schmidt, 1995). Hopkins and Bailey (1971) found that inadequate market analysis and insufficient efforts in sales, distribution or promotion tend to lead to product failure. Extensive marketing efforts lead to product success (Rothwell, 1992). Adequate performance of all marketing activities was a key determinant of product success (Cooper and Kleinschmidt, 1987). As observed by Angelmar (1989, p. 186), ‘ A unique and superior product is a necessary but often insufficient condition for innovation success. Achievement of competitive advantage typically also requires that the product be brought to the attention of and be made available to the appropriate target customers. This requires communication, sales force and distribution resources’. Research examining the antecedents of product success and failure broadly suggests that inadequate marketing support is a key factor leading to product failure (Crawford, 1991; Davis, 1988). Adequate performance of all marketing activities is a key determinant of product market success (Cooper and Kleinschmidt, 1987), and thus it is argued that marketing capability leads to sustained competitive advantage. Therefore it is hypothesized as:

Hypothesis4: There is a positive relationship between marketing capability and sustained competitive advantage.

Research Methodology

Data Collection

The sampling frame for the study was a list of 1, 272 manufacturing firms in a regional area. The decision to select a sample of firms from the manufacturing industry was driven by the aim of examining all types of innovation within the firm, including product innovation. A further consideration was to avoid heterogeneity of technological processes used by the firms that has implications for industry effects in research (Dess et al., 1990). Firms were selected from two industry subgroups within the manufacturing industry, namely the Machinery and Equipment Manufacturing and the Metal Product Manufacturing industries. These two industry subgroups are engaged in metal-based manufacturing activities and have no vast differences in their adopted technological processes. A survey packet including a personalized cover letter and self-administered questionnaire was sent to the chief executive officer of each firm. To achieve a higher response rate, a follow-up mail was undertaken after contacting 200 randomly selected firms. The 326 useable questionnaires that were returned yielded a response rate of 25. 6%. The response rate is quite satisfactory given that average top management survey response rates are in the range of 15% to 20% (Menon et al., 1996).

The sampling method succeeded in providing observations that varied greatly, at least in terms of firm characteristics. The firms represented in the sample varied widely in size, as measured by annual sales (mean = $14 million; standard deviation = $44 million) or number of employees (mean = 65 employees; standard deviation = 177 employees). On average, the firms in the sample had been operating for 24 years (standard deviation = 21. 7 years). Approximately 58% of firms in the sample were competing in export markets. Further, these firms had been competing in export markets for nine years on average (standard deviation = 8. 1 years).

Missing values were treated using list wise deletion, which resulted in an effective sample size of 324 observations. Although the loss of observations can be large in some situations, this method produces consistent estimates of model parameters (Bollen, 1989). In total, however, only two observations were deleted (less than one percent) using this method.

Key Informants

In this study CEOs were used as the key informants. CEOs have been used as key informants in similar research on innovation-based competitive strategy (Li and Calantone, 1998). Although some researchers have advocated the use of multiple informants (Barnes, 1984; Hogarth and Makridakis, 1981), others have found that CEOs provide data as reliable and valid as multiple informants (Zahra and Covin, 1993). CEOs possess the most comprehensive knowledge of the characteristics of the organization, its strategy and performance (Snow and Hrebiniak, 1980).

The CEO is familiar with all the aspects of the company's operations, influences the strategic direction of the company and plays a key role in technology adoption decisions (Miller and Toulouse, 1986). Data on strategy gathered from middle and lower managers have questionable validity because these managers typically do not have access to information about how the total system operates (Snow and Hrebiniak, 1980). As an additional measure, as suggested by Kumar, Stern and Anderson (1993), a self-assessment of knowledgeability was adopted. On a seven-point Likert scale (anchored at ' little involved' to ' heavily involved') the informants were asked how involved they were in a firm's key decision-making. The mean response was greater than five (s = 5. 85), thus showing evidence of knowledgeability.

Test Of Non Response Bias

Tests of non response bias were conducted comparing the means of four variables, i. e., number of employees, year established, number of years exporting and annual sales between early and late respondents (Armstrong and Overton, 1977). The absence of significant differences between the means of early and late respondents suggests that non response bias may not be a problem.

Measures

All of the theoretical constructs in the conceptual model are measured using multi-item scales. The measures are indicated in the Appendix.

Entrepreneurial Intensity

The entrepreneurial intensity scale captures the extent to which the firm's strategic leaders are innovative, proactive and risk seeking. High scores on this scale indicate that the firm's key decision-makers value innovation and proactiveness and have a high tolerance for risk. The specific items used are derived from Namen and Slevin (1993), which was based on the measure developed by Covin and Slevin (1986). Namen and Slevin (1993) measure reported a Cronbach Alpha of . 80. This measure had a more complex underlying factor structure having three dimensions, i. e., innovativeness, proactiveness and risk-taking propensity, each having 3, 4 and 4 indicators respectively. This corresponds to a second-order factor model (Jöreskog and Sorbom, 1996; Heide and George, 1992) in which the observed items are hypothesized to originate from the three first-order factors and the first-order factors in turn originate from a second-order factor.

Marketing Capability

The marketing capability scale captures the quality of the firm's customer service, advertising effectiveness, quality of sales force, strength of distribution networks, market research ability, speed of new product introduction and ability to differentiate products. High scores on the marketing capability scale suggest that the firm possesses distinctive capabilities in the use of marketing tools and techniques. The measure used was an adaptation of the marketing capability measure originally developed by Atuahene-Gima (1993). The said measure had 10 items and reported an Alpha of . 78. Based on the observations of pilot tests, two items namely ‘ number of market segments served’ and ‘ diversity of product line’ were excluded. As an additional item, respondents were asked to indicate importance of marketing capability in competition.

Organizational Innovation Intensity

Organizational innovation construct is operationalized in terms of the type and the degree of innovation. The types of innovation included are product, process, managerial and marketing innovation. The degree of innovation ranged from incremental to radical innovations. This reflects a broader conceptualizat