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The impacts of marketing and operations capabilities on financial performance in the UK retail sector: A resource-based perspective

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ABSTRACT

Drawing upon the resource-based view (RBV) of the firm, this study investigates the relationships among marketing capability, operations capability, and financial performance. Using archival data of 186 retail firms in the UK, we find that that marketing capability has a significant impact on operations capability, and that operations capability is significantly and positively related to retail efficiency. The results also suggest that operations capability fully mediates the relationship between marketing capability and financial performance. The findings of this study provide practical insights for practicing managers to consider when developing functional capabilities in order to achieve superior financial performance.

1. Introduction

The resource-based view (RBV) of the firm attributes superior financial performance to organizational resources and capabilities (Bharadwaj, 2000). Capabilities have been broadly defined as "complex bundles of skills and accumulated knowledge that enable firms to coordinate activities and make use of their assets" (Day, 1990). Song, Benedetto, and Nason (2007) stated that each firm has a distinctive set of resources and capabilities, and some types of capabilities will be more closely related to superior performance than others. Grant (2002) described a hierarchy of organizational capabilities, where specialized capabilities are integrated into broader functional capabilities such as marketing and operations capabilities. A growing number of researchers have explicitly emphasized the importance of integrating operations and marketing perspectives in gaining competitive advantage (Calantone, Dröge, & Vickery, 2002; Hausmana, Montgomery, & Roth, 2002; Nath, Nacchiapan, & Ramanathan, 2010; O'Leary-Kelly & Flores, 2002; Song et al., 2007). Although the integrated roles of the functional capabilities have become more critical than ever in achieving competitive advantage (Ho & Tang, 2004; Nath et al., 2010), marketing and operations functions have been examined separately in the management literature (Karmakar, 1996).

The marketing literature has always focused on creation of customer demand and how to provide customers a unique value proposition, such as proposing that a firm can enhance its financial performance by improving its marketing capability (Vorhies & Morgan, 2005). Operations management researchers, on the other hand, have focused on management of supply to fulfill customer demand, such as examining the effect of operations capability on firm performance (Terjesena, Patelb, & Covin, 2011). Porter (1985) argued that all functional areas of business contribute towards delivery of products and services but marketing and operations are the two key functions that create value for customers. There is a growing body of literature arguing the important role of integration of marketing and operations functions in improving firm performance (Balasubramanian & Bhardwaj, 2004; Hausmana et al., 2002; Ho & Zheng, 2004; Roth & van der Velde, 1991; Wheelwright & Hayes, 1985). Mismatch between the two functions lead to production inefficiency and customer dissatisfaction, whereas a proper fit lead to sustainable competitive advantage (Ho & Tang, 2004). It is widely accepted among business leaders that ability to integrate such cross-functional expertise is vital to both competitive advantage and long-term success (Wind, 2005). Surprisingly, no other empirical studies have looked into the actual linkage between marketing capability and operations capability and their impacts on financial performance. Hence, in the present study, we seek to clarify the relationships among the three constructs holistically.

We adopt a resource-based perspective for theory development and hypothesis framing purposes. The RBV describes how an individual firm's resources (e.g. tangible and intangible assets and organizational capabilities) affect its financial performance (Barney, 1991; Wernerfelt,

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1984). Resources that are valuable, rare, and inimitable can lead to competitive advantage when strategically selected and deployed (Barney, 1991; Grant, 1991). Over the last few years, the RBV has been extensively adopted in both the marketing and operations management literature (Paiva, Roth, & Fensterseifer, 2008). Using the archival financial data of 186 retail firms in the UK, we explore the links among marketing capability, operations capability, and financial performance.

The remainder of this paper is organized as follows. First, a brief literature survey on concepts relevant to this study is provided, and research hypotheses are developed. Second, the design of this study and the methodological procedures are described. Third, the findings of the study are presented and discussed, and a set of theoretical and managerial implications are drawn. Lastly, we conclude with a summary of findings and conclusions along with the main limitations and scope for future research.

2. Theoretical background and research hypotheses

2.1. Resource-based view and capability

The RBV considers a firm as a bundle of resources and capabilities (Wernerfelt, 1984). It is an influential framework for understanding how competitive advantage is achieved through intra-firm resources and capabilities (Corbett & Claridge, 2002). In general, resources refer to tangible and intangible firm assets that could be put into productive use (e.g. Amit & Schoemaker, 1993; Grant, 1991). Capability is defined as the ability of the firm to use its resource "to affect a desired end" (Amit & Schoemaker, 1993). It is like "intermediate goods" generated by the firm using organizational processes to provide "enhanced productivity to its resources" (Amit & Schoemaker, 1993). Compared to resources, capabilities are embedded in the dynamic interaction of multiple knowledge sources and are more firm-specific and less transferable thus leading to competitive advantage (Peng, Schroeder, & Shah, 2008). Capabilities can be broadly categorized into those that reflect the ability to perform basic functional activities of the firm and those that guide the improvement and renewal of the existing activities (Collis, 1994). The RBV argues that firms will have different nature of resources and varying levels of capabilities. A firm's survival depends on its ability to create new resources, build on its capabilities platform, and make the capabilities more inimitable to achieve competitive advantage (Day & Wensley, 1988; Peteraf, 1993). The RBV has been widely used in the marketing literature to understand the interaction between marketing and other functional capabilities and their effects on performance improvement (Dutta, Narashiman, & Surendra, 1999; Song et al., 2007; Song, Droge, Hanvanich, & Calantone, 2005). Previous studies (e.g. Dutta et al., 1999; Nath et al., 2010; Terjesena et al., 2011; Vorhies & Morgan, 2005) have found that there is a significant relationship between functional capabilities and firm performance.

In addition, the RBV suggests that heterogeneity in firm performance is due to ownership of resources that have differential productivity (Makadok, 2001). Dutta et al. (1999) defined a firm's capability as "its ability to deploy resources (inputs) available to it to achieve the desired objectives (outputs)". Thus, the present study uses an input–output framework in the form of efficiency frontier function to understand the optimal conversion of a firm's resources to its objectives (Nath et al., 2010). Day (1994) also suggested that "it is not possible to enumerate all possible capabilities, because every business develops its own configuration of capabilities that is rooted in the realities of its competitive market, past commitments, and anticipated requirements". For the purposes of this study, we will focus on two important organizational capabilities (marketing and operations) (Day, 1994; Song et al., 2007) and investigate their effects on financial performance.

As noted earlier, the RBV views a firm as a bundle of resources and capabilities, some types of functional capabilities (such as marketing and operations) will influence firm performance (Day, 1994; Song et al., 2007). Drawing upon the RBV, we develop a conceptual framework (see Fig. 1) investigating that how a firm exploits its critical capabilities in marketing and operations to improve financial performance.

2.2. Marketing capability

Marketing capability is defined as the integrative process, in which a firm uses its tangible and intangible resources to understand complex consumer specific needs, achieve product differentiation relative to competition, and achieve superior brand equity (Day, 1994; Dutta et al., 1999; Song et al., 2005, 2007). Marketing capabilities include knowledge of the competition and of customers, as well as skill in segmenting and targeting markets, in advertising and pricing, and in integrating marketing activity (Song et al., 2007). A firm develops its marketing capabilities when it can combine employees' knowledge and skills with the available resources (Vorhies & Morgan, 2005). Firms that devote efforts and resources to interacting with customers can enhance their "market sensing" abilities (Narsimhan, Rajiv, & Dutta, 2006). Such capabilities, once built are very difficult to imitate for competing firms (Day, 1994). Thus, marketing capability is considered to be one of the most important sources of competitive advantage (Nath et al., 2010). The marketing literature suggests that firms use capabilities to transform resources into outputs based on their marketing mix strategies and such marketing capabilities is related to their business performance (Vorhies & Morgan, 2003). Song et al. (2007) argued that marketing capability helps a firm build and maintain long-term relationship with customers and channel members. Marketing capability creates a strong brand image that allows firms to achieve superior firm performance (Ortega & Villaverde, 2008). Empirical studies have found a significant relationship between marketing capability and financial performance (Dutta et al., 1999; Nath et al., 2010; Song et al., 2005; Vorhies & Morgan, 2005). For instance, Nath et al. (2010) found that marketing capability has a significant impact on business performance. Vorhies and Morgan (2005) also found that marketing capability is positively and significantly related to firm performance. Using the above arguments, the following hypothesis is proposed.

H1. Marketing capability has a positive impact on financial performance.

2.3. Operations capability

Operations capability is defined as the integration of a complex set of tasks performed by a firm to enhance its output through the most efficient use of its production capabilities, technology, and flow of materials (Dutta et al., 1999; Hayes, Wheelwright, & Clark, 1988). Superior operations capability increases efficiency in the delivery process, reduces cost of operations and achieves competitive advantage (Day, 1994). Operations capabilities are fundamental proficiencies that enable firms to achieve production-related goals such as consistent product quality, cost reduction, volume and product flexibility, and delivery dependability and speed (Boyer & Lewis, 2002; Swink & Hegarty, 1998; Terjesena et al., 2011; White, 1996). Superior operations capabilities have been long recognized as a source of competitive advantages and superior performance outcomes (e.g. Peng et al., 2008; Terjesena et al., 2011; Vickery, Droge, & Markland, 1993). It argues that a firm can achieve competitive advantage by handling an efficient material flow process, careful utilization of assets, and acquisition and dissemination of superior process knowledge (Tan, Kannan, & Narasimhan, 2007). Among the operations capabilities most commonly, strongly, and positively associated with competitive success are those contributing to a firm's ability to compete on the bases of time, flexibility, low costs, and product quality (White, 1996). Some empirical studies have identified the important effect of operations capability on firm performance (Nath et al., 2010; Rosenzweig, Roth, & Dean, 2003; Terjesena et al., 2011). Using a sample of 167 UK-based high technology manufacturing firms, Terjesena et al. (2011) found that that firm performance (such as sales growth, return on sales, and return on assets) is significantly predicted