Industrial Marketing Management 41 (2012) 495–507

Contents lists available at ScienceDirect

Industrial Marketing Management

Using cross-functional, cross-firm teams to co-create value: The role of financial measures

Matias G. Enz [a,*], Douglas M. Lambert [b,1]

[a] Cranfield School of Management, Cranfield University, Bedfordshire, MK43 0AL, UK
[b] Department of Marketing and Logistics, Fisher College of Business, The Ohio State University, Columbus, OH 43210, USA

ARTICLE INFO

Article history:
Received 8 June 2010
Received in revised form 17 March 2011
Accepted 12 April 2011
Available online 27 August 2011

Keywords:
Cross-functional teams
Relationship marketing
Financial measurement of value co-creation
Interorganizational collaboration
Joint innovation initiatives

ABSTRACT

Increasingly, the involvement of representatives from all major business functions in cross-functional, cross-firm teams is being viewed as a means to develop and maintain profitable business-to-business relationships. However, if the measurements of the value co-created in these relationships with customers and suppliers do not incorporate the financial outcomes of joint cross-functional initiatives, managers can be led to make decisions that jeopardize the long-term profitability of the two firms. In this paper, the authors explore the differences in value co-creation when a company is linked to key customers and key suppliers through cross-functional teams and when it is not. Using a case study approach, the authors measured value co-creation in financial terms and describe how managers changed their behaviors toward customers and suppliers when they were able to compare the value that was being co-created in each relationship. In each pair of relationships, one involved cross-functional teams and the other did not. The results indicate that cross-functional, cross-firm involvement leads to increased value co-creation. The research suggests that marketing scholars and managers should emphasize the use of cross-functional teams that involve all major functions to manage relationships with key customers, and should incorporate financial measures in the evaluation of relationship performance.

1. Introduction

Faced with increased pressure to reduce costs and improve revenues, managers are looking for opportunities to co-create value with customers and suppliers (Cova & Salle, 2008; Payne, Storbacka, & Frow, 2008; Ulaga & Eggert, 2006). Value is co-created when the parties involved in a buyer–supplier relationship combine their knowledge and skills in order to achieve higher profits than would be achieved by working independently (Ramirez, 1999). In a business-to-business context, knowledge and skills reside in the functions of the companies involved in the relationship. Thus, the interaction of managers representing multiple organizational functions from both sides of a relationship is paramount for the co-creation of value (Håkansson & Ford, 2002; Lambert & García-Dastugue, 2006). This interaction should not be limited to representatives from the sales, marketing, and IT functions, as is commonly specified in the marketing literature (Payne & Frow, 2005), but should include representatives of other functions such as Finance, Logistics, Operations, Purchasing, and R&D (Lambert, 2010).

In a business-to-business context, marketing managers need to redefine the ways in which they interact with individuals from their own company and from other companies, and incorporate financial measures when evaluating the value created in the relationships with customers and suppliers (Ford & McDowell, 1999; Lindgreen & Wynstra, 2005). Customer profitability measures, which should inform customer segmentation and resource commitment decisions, need to capture the value that each customer helps to co-create (Ulaga, 2003). Similarly, the value that each supplier co-creates for a firm by participating in initiatives such as the development and commercialization of new products, the provision of consumer market intelligence, and the delivery of other marketing-related services, should be quantified and should inform purchasing decisions (Eggert & Ulaga, 2010). The lack of financial measures of value co-creation prevents managers from identifying the true benefit of cross-functional involvement in long-term buyer–supplier relationships (Hogan, 2001; Rust, Ambler, Carpenter, Kumar, & Srivastava, 2004).

The value that is co-created in a business-to-business relationship is difficult to assess because it is a multidimensional construct (Ulaga, 2003) and perceptual in nature (Anderson, Jain, & Chintagunta, 1993). Perceptions of the value created usually differ among individuals from different functions and from different sides of the relationship (Baba, 1988; Ulaga & Chacour, 2001). Managers' perceptions of value co-creation should be informed by financial information in order to make

* Corresponding author. Tel.: +44 1234 751122x2420; fax: +44 1234 752158.
E-mail addresses: matias.enz@cranfield.ac.uk (M.G. Enz), lambert.119@osu.edu (D.M. Lambert).
[1] Tel.: +1 614 292 0331; fax: +1 614 292 0440.

0019-8501/$ – see front matter © 2011 Elsevier Inc. All rights reserved.
doi:10.1016/j.indmarman.2011.06.041

sound decisions about how to manage relationships with customers and suppliers (Ford & McDowell, 1999; Ryals, 2005).

In this paper, we explore the differences in value co-creation when a company is linked to key customers and key suppliers through cross-functional teams and when it is not. We propose an approach for quantifying value co-creation in buyer–supplier relationships that captures the financial outcomes from joint initiatives in a single financial measure: revenue minus the avoidable costs associated with the initiatives conducted within a relationship. We used the approach to quantify value co-creation in two pairs of buyer–supplier relationships. In each pair, one relationship involved cross-functional teams and the other did not. Based on an analysis of how managers' behaviors changed toward customers and suppliers when quantitative measurements of value co-creation were made available to them, we found that cross-functional involvement resulted in more profitable buyer–seller relationships, and that having financial measurements of value co-creation enabled managers to better allocate resources to relationships.

2. Literature review

In the article “Marketing Renaissance,” fourteen distinguished marketing scholars provided their insights on the “opportunities and imperatives for improving marketing thought, practice and infrastructure” (Brown et al., 2005). Multifunctional coordination and measurement of the impact of marketing decisions on profits were identified as two research imperatives. One of the essays by Stephen W. Brown summarized a roundtable discussion with senior executives about who is responsible for the firm's relationships with customers: “Executives noted that the customer must be a shared responsibility throughout the organization. Notably, none of the executives mentioned marketing as being responsible for the customer” (p. 3). In another essay, Jagdish N. Sheth and Rajendra S. Sisoda stated that: “marketers have historically focused on sales related measures such as market share, but have largely ignored profitability and shareholder value. Marketing must do a better job managing its resources and demonstrating the value of investing in marketing programs” (p. 12). Next, we review the literature related to these two imperatives for improving marketing thought and practice: 1) a multifunctional approach to marketing, and 2) an emphasis on measuring the financial outcomes of marketing initiatives.

2.1. Imperative 1: a multifunctional approach to marketing

In order to successfully identify and satisfy customer needs and strengthen customer relationships, a market orientation should be adopted by all functions of an organization (Jüttner, Christopher, & Baker, 2007; Narver & Slater, 1990). However, managers in the marketing function have traditionally seen themselves – and have been seen by managers in other functions – as the ones responsible for creating and maintaining relationships with business-to-business customers (Brown et al., 2005; Webster, 1992). This legacy has its roots in the microeconomic maximization paradigm that dominated management and academic thinking until the late 1980s (Vargo & Lusch, 2004). During this period of relative stability, competitive advantage was achieved by a focus on transactional efficiencies, which made an emphasis on business functions a reasonable option. Another reason for thinking that the marketing function is responsible for creating, maintaining and strengthening relationships with business-to-business customers is because traditionally it has this responsibility with consumers (Lambert, 2010). A single point of contact between two companies is still suitable for relationships that are not key, where the potential financial gains do not justify the costs of implementing cross-functional teams (Lambert, 2010; McDonald, Rogers, & Woodburn, 2000). But even in these cases, a cross-functional team should develop the Product and Service Agreement that the salesperson delivers. As competition increasingly is based on the provision of services and on the development of close relationships with key customers and suppliers, the need for actively involving multiple corporate functions in key business-to-business relationships increases (Ryals & Knox, 2001; Tuli, Kohli, & Bharadwaj, 2007).

Without the active involvement of the major business functions in a relationship, the cross-functional interfaces between the two companies may not be sufficiently developed to facilitate the dialog and the exchange of services that is necessary to co-create value (Lambert & García-Dastugue, 2006). When this happens, marketing strategies are not enriched with knowledge about customer needs that could have been developed if other functions had been involved (Narver & Slater, 1990). Marketing may have a key role in making promises and finding new business, but the satisfaction of promises and the building of customer loyalty are the result of the coordinated actions of individuals in multiple functions (Brown et al., 2005).

While there is a recognition in the Customer Relationship Marketing (CRM) and Key Account Management (KAM) literature that a cross-functional approach is desirable in key business-to-business relationships, in many cases it is limited to the so called “front-end” functions such as sales, communications, IT, and new business development (Lambert, 2010). “Although CRM requires a cross-functional approach, it is often vested in functionally based roles, including IT and marketing” (Payne & Frow, 2005, p. 170). A growing number of scholars are supporting the view that the implementation of cross-functional business processes is key to achieving competitive advantage (Lambert, 2010; Storbacka, Ryals, Davies, & Nenonen, 2009). Research on team and group management provides insights about the factors that influence team performance and about how to design teams (e.g., Campion, Medsker, & Higgs, 1993; Hackman, 1987; Hirunyawipada, Beyerlein, & Blankson, 2010). However, most research focuses on team dynamics that occur within a single company (Trent & Monczka, 1994). Research that involves the interaction of cross-functional teams with members that belong to two independent companies is rare (Troy, Hirunyawipada, & Paswan, 2008). In this paper, we identify the benefits in terms of value co-creation that are possible by using cross-functional teams in key buyer–seller relationships. The conceptualization of cross-functional teams used in this paper is much broader than what is normally used in the marketing literature because we included teams with representation from functions such as Finance, Logistics, Operations, Purchasing, and R&D, as well as Sales, Marketing and IT.

2.2. Imperative 2: an emphasis on measuring the financial outcomes of marketing initiatives

Scholars and practitioners are under increased pressure to demonstrate how marketing assets and capabilities impact business performance (Helgesen, 2007; Kumar & Shah, 2009). Marketers have historically focused on macro financial measurements such as return on capital, accounts receivable, and operating expenses, which are not sufficient to link a firm's long-term strategy with its short-term actions (Kaplan & Norton, 1996; Rust et al., 2004). Typically, companies do not have disaggregated financial information that provides a meaningful and current picture of the value that is being co-created within relationships with customers and suppliers (Brown et al., 2005; Doyle, 2000), and this is the type of information that managers need to make difficult decisions. A manager that we interviewed as part of this research said: “What is key for partnerships is measuring the total dollar value of the relationship, or trying to estimate the total dollar value. Because it is hard to do.” An R&D manager from another firm commented: “It would be great if there was a model to figure out how we measure the value that we bring to the relationship quantitatively (we were talking about financial measures), but we have not cracked that nut yet.”

Ignoring the importance of long-term financial measurements for making strategic decisions such as customer and supplier