Industrial Marketing Management 39 (2010) 1300–1310

Contents lists available at ScienceDirect

Industrial Marketing Management

Strategic marketing and business performance: A study in three European 'engineering countries'

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ARTICLE INFO

Article history:
Received 6 January 2008
Received in revised form 21 July 2009
Accepted 10 March 2010
Available online 12 August 2010

Keywords:
Strategic marketing
Business performance
Resource-based view
Business orientations
Structural equation modeling

ABSTRACT

In spite of its relevance, the effects of strategic marketing on business performance are sparingly studied, especially in particular business contexts. We address this gap in two ways. First, we examine the influence of four key strategic marketing concepts—market orientation, innovation orientation, and two marketing capability categories (outside-in and inside-out capabilities)—on company performance. Second, these relationships are studied in three European "engineering countries:" Austria, Finland and Germany. Their relative homogeneity enables testing the generality versus context-specificity of strategic marketing's performance impact. Using SEM analysis, surprisingly weak relationships between market orientation and outside-in capabilities, and business performance are identified, as opposed to the strong role of inside-out capabilities and innovation orientation. These results can be understood through the "engineering country" characteristics. Moreover, clear differences in results are identified among these relatively homogenous countries. This is a major finding as it challenges the widely assumed generality of the strategic marketing–performance relationship. Country-specific results have also considerable managerial relevance.

1. Introduction

Marketing efforts and know-how are instrumental in commercializing ideas and inventions and in running successful business. Nevertheless, the effect of strategic marketing on business performance remains elusive, even despite an established research tradition (Hooley, Greenley, Cadogan, & Fahy, 2005; Matsuno, Mentzer, & Özsomer, 2002; Srivastava, Shervani, & Fahey, 1998). This may be due to the fact that the outcomes of strategic marketing are subject to many internal and external influences, making the identification of cause-and-effect linkages very hard (Bonoma & Clark, 1988). A related issue is that the majority of studies examine only the effects of two or three marketing factors at a time. This is a clear limitation compared to corporate reality. The current situation is alarming and several studies emphasize the urgency to demonstrate relationships between marketing inputs, processes and business outcomes (e.g. Morgan, Clark, & Gooner, 2002; O'Sullivan & Abela, 2007).

Another critical aspect in the strategic marketing research is the dominance of cross-sectional research design. By studying the marketing effects over several industries and even over countries, we receive highly averaged results that may also contain a lot of 'noise.' This methodological approach regards the influence of strategic marketing as generic. That is, the impact of marketing factors is presumed to be constant across different types of business contexts. This is a strong assumption and we lack sufficient knowledge of the effects of strategic marketing factors in particular business contexts (Homburg, Workman, & Krohmer, 1999; Morgan et al., 2002; Makino, Isobe, & Chan, 2004). This is an evident shortcoming, as research in market orientation suggests the relevance of contextual analysis, where even a cross-national meta-analysis of its performance impact is available (Ellis, 2006). Additional evidence of contextuality is available through studies that employ the strategy typology of Miles and Snow (1978) as contextual determinants (e.g. Desarbo, Di Benedetto, Song, & Sinha, 2005; Slater, Olson, & Hult, 2006).

The present study addresses recognized research gaps in two ways. First, as recommended by Hooley, Greenley, Fahy, and Cadogan (2001), we examine the influence of four key strategic marketing concepts—market orientation (e.g. Kohli & Jaworski, 1990; Narver & Slater, 1990), innovation orientation (e.g. Siguaw, Simpson, & Enz, 2006), and the two marketing capability categories (outside-in and inside-out capabilities; Day, 1994)—on company performance. As company performance is a complex phenomenon, we model it using

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doi:10.1016/j.indmarman.2010.06.005

competitive advantage, market performance, and financial performance (e.g. Morgan et al., 2002). These solutions aim to match the complexity of strategic marketing and performance relationships.

Second, in order to examine the marketing–performance connection in a specific environment, we select countries as the research context and carry out analysis in Austria, Finland and Germany. These countries, coined "engineering countries," are chosen for a number of reasons. First, it will be shown that they are significantly similar in their business cultural heritages and business policies, all emphasizing technological and engineering innovations and having strong exports in these fields. These characteristics are interesting when examining the relative role of market orientation and marketing capabilities versus innovation orientation. Moreover, these three relatively homogenous countries provide a critical setting for testing the generality versus context specificity of the performance impact of strategic marketing. Finally, country-specific results also have considerable managerial relevance. To provide readers with a better understanding of this research strategy, the selected countries are briefly described next.

The general similarities among Austria, Finland and Germany, as "engineering countries," can be identified from extant research literature, as well as from our data. For example, for years, these countries' expenditures on research and development as a percentage of GDP are well above OECD and European Union averages (OECD, 2008). To generalize, companies that operate in "engineering countries" tend to strive for product superiority, potentially at the expense of focusing on customer satisfaction and needs fulfillment. Moreover, companies in these countries have, relatively speaking, based significant amounts of their competitive strategies on high technology and process technology applications. Thus, we expect that engineering-oriented companies may gain success almost purely on the basis of engineering skills and process efficiencies, whereas their marketing abilities may be underdeveloped. Using the concepts of this study, "engineering countries" are inherently assumed to be more innovation-oriented than market-oriented, and possess more inside-out capabilities than outside-in capabilities. Accordingly, as argued by Avlonitis and Gounaris (1997), we would expect improvements in business performance if these companies are able to combine their engineering skills with enhanced marketing skills and market knowledge. These somewhat speculative expectations offer additional relevance when focusing on "engineering countries."

Austria currently boasts one of the fastest-growing engineering industries in Europe, while, in absolute numbers, Germany remains by far the largest producer of engineering equipment in the EU (Ayala, Spiechowicz, & Vidaller, 2006). Despite Germany's strength in engineering-related industries (Randlesome, 1994), German companies characteristically have lower levels of marketing professionalism than many of their international competitors (Shaw, Shaw, & Enke, 2003). Likewise in Finland, engineering—and not marketing—is considerably important, as evidenced by its second position in a 2006 R&D expenditures per GDP comparison among OECD countries (OECD, 2008). In Finland and Austria, innovative activities and science–industry relations are approximately equal (Dachs, Ebersberger, & Pyka, 2004), while Czarnitzki, Ebersberger and Fier (2007) argue that Finland and Germany have several comparables with regard to national innovation and R&D policies as well as public funding. Further, networking and close cooperation between universities and industry are seen as key strengths in both countries (Czarnitzki et al., 2007). These three countries have additional traits in common: high, closely similar standards of living (GDP per capita somewhat above the average of OECD countries) and easy access to European markets as members of the European Union.

To summarize, the primary objective of the present study is to empirically examine how market orientation, innovation orientation, and marketing capabilities affect the financial performance of companies through competitive advantages and market performance. Importantly, we consider country-specific moderation on performance, which almost all prior studies neglect (Ellis, 2006 provides a notable exception). Accordingly, the questions we attempt to answer are:

1. How does strategic marketing, in terms of orientations and capabilities, influence company financial performance in "engineering countries?"
2. Are the results consistent within the "engineering countries," or are there any significant country-specific differences?

These questions are highly relevant for both theory development and managerial practice. Answer to the first provides a comprehensive model of the strategic marketing–performance relationship and the second question is critical to the assumption of the generic nature of this relationship. In more managerial terms, we examine whether it is innovation-driving company culture and principles, highly developed market orientation, or perhaps certain marketing capabilities that most strongly drive superior performance in the context of "engineering countries." Moreover, what are potential areas of improvement, and are these the same in all countries? Answers to these questions are of interest to any company that seeks profitable growth. If results suggest that the same rules clearly do not apply from one country to another, this can be a strong argument for the relevance of the "act local" principle also to strategic marketing.

The rest of the paper is structured as follows. The next section discusses the study's theoretical grounds and develops its general conceptual framework. This framework is then broken down into constructs and a set of hypotheses are constructed based on extant literature. Thereafter, the methodology, analysis and key findings are presented. Discussion of both theoretical and managerial implications, limitations and avenues for further studies concludes the paper.

2. Theoretical background

In 1992, Webster suggests that the distinction between marketing and strategic planning is blurred, and the performers of these functions are increasingly the same. As such movement is evidenced, strategic marketing becomes a recognized phenomenon (see e.g. Fahy & Smithee, 1999). However, the concept of strategic marketing is used in various ways while an established definition is not yet available. In this paper, strategic marketing is defined as a deeply stakeholder-oriented concept that focuses on a company's long-term vision for competitive advantage and value-addition through innovation. This definition has its grounds on AMA's current (2007) definition of marketing (see below), but extends it by including innovation as a central marketing-related, strategic business element.

"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." (American Marketing Association, 2007)

The present study finds theoretical grounds in the resource-based view (RBV) of the firm, according to which competitive advantage—and subsequently performance—depends on historically developed resource endowments (Wernerfelt, 1984). Therefore, firms—and marketing in particular (Hooley et al., 2001)—should build on resources that contribute to their ability to produce valuable, rare, imperfectly imitable and non-substitutable market offerings in a manner that is either efficient or effective (Barney, 1991; Hunt & Morgan, 1995). As Fahy and Smithee (1999) argue, intangible resources and capabilities, such as organizational learning (e.g. Santos-Vijande et al., 2005) and customer knowledge (e.g. Webster, 1992) are especially difficult to duplicate and thus, provide a meaningful basis for marketing strategy and market position development. As such, intangible resources and capabilities have the potential to become distinctive competencies for the firm (Blois & Ramirez, 2006). In this sense, the present study also elaborates on the