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The effect of firms' structural designs on advertising and personal selling returns

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ABSTRACT

Firms make substantial investments in advertising and personal selling to improve their performance, but it is unclear how returns on the promotional mix vary across different corporate-level organizational structures. This article identifies and integrates two structural designs that foster customer alignment, namely, *structural type* (i.e., organizing corporate-level business units around customer instead of product groups) and *structural granularity* (i.e., dividing a firm into smaller business units), then investigates how these customer-aligned structural designs moderate the effects of the promotional mix on firm performance. An analysis of 14 years of longitudinal, multisource, secondary data reveals that the performance effect of investments in advertising and personal selling are enhanced by customer-aligned structural designs. However, the synergistic effects of joint investments in advertising and personal selling get suppressed in customer-aligned structures because functional fragmentation results from internal inefficiencies and complexities. To specify the tensions involved across the different structures, the authors conduct a post hoc analysis and thereby derive organizational structure-specific guidelines.

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1. Introduction

Investing in advertising and a sales force is argued to improve a firm's ability to differentiate itself and lead to enhanced firm performance. On the basis of this belief, U.S. firms annually spend more than \$140 billion on advertising (Kantar Media, 2015) and \$800 billion on personal selling (Zoltners, Sinha, & Lorimer, 2008), representing 5% of U.S. gross domestic product. Yet empirical evidence of the effect of advertising and personal selling, or the promotional mix, on firm performance remains mixed. Researchers identify external contextual factors (e.g., environment, industry) to help explain the mixed findings (e.g., Edeling & Fischer, 2016), but firms increasingly cite the lack of an appropriate internal organizational structure as a key impediment to the effectiveness of their marketing strategies. For example, 52% of executives assert that organizational restructuring made no improvement in or even worsened the returns of their company's marketing efforts (Advertising Age, 2008). Reflecting managers' interest in these

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THE INFLUENCE OF FIRMS' STRUCTURAL DESIGNS ON ADVERTISING AND PERSONAL SELLING RETURNS

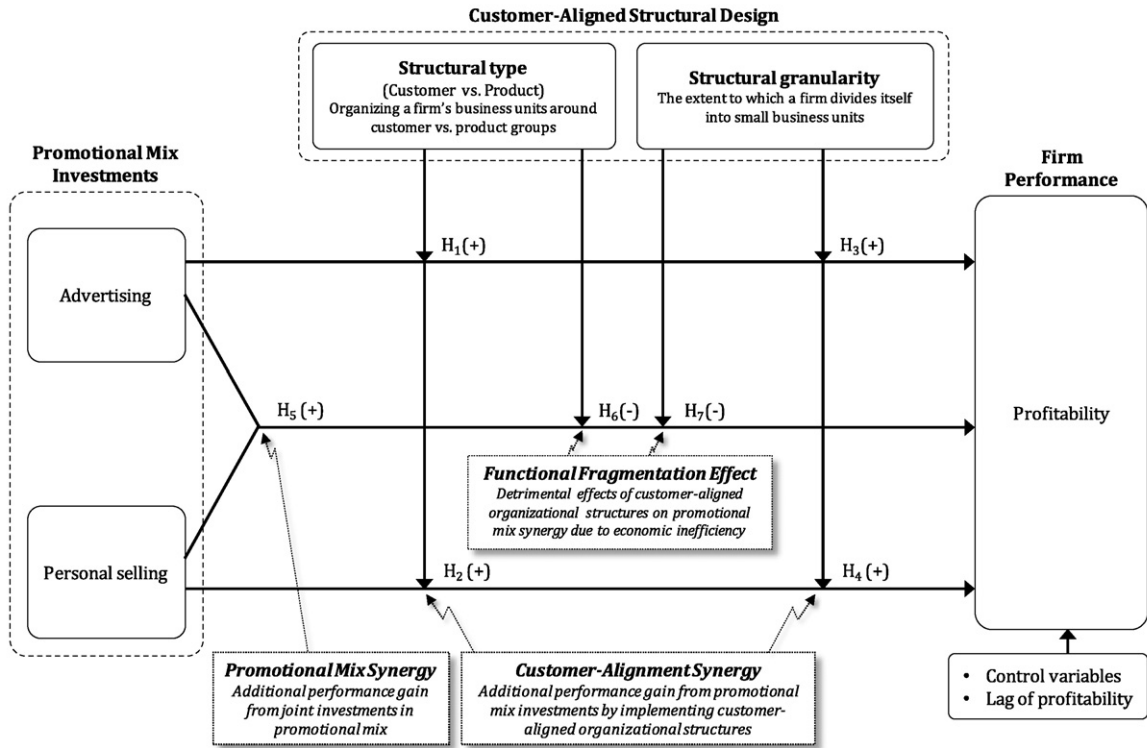


Fig. 1. The influence of firms' structural designs on advertising and personal selling returns.

topics, the [Marketing Science Institute \(2014, p. 7\)](#) has set a firm's *organizational structure* as a top research priority and urged more research on “developing and organizing [structures] for marketing excellence.”

Many firms seek to design structures that seamlessly align their internal units with their external customers, to provide better support to their marketing and sales functions. Organizing business units around customer groups instead of product groups can foster responsibility and accountability for customers, leading to closer relationships that ultimately increase firm performance ([Day, 2006](#); [Lee et al., 2015](#)). According to this logic, customer-aligned structural designs should improve the returns on advertising and personal selling efforts, because such structures provide in-depth insights into customers and better track changing needs, which is necessary to devise promotional mix strategies that better fit customers' needs now and in the future. For example, [Dell \(2010, p. 2\)](#) reorganized its business units around distinctive customer groups (i.e., Large Enterprise; Public, Small, and Medium Business; and Consumer) to establish “alignment [that] creates a clear customer-centric focus ... and greater responsiveness.” Other firms avoid organizing their units by customer groups though, worried that such structural designs might create infrastructure duplication and internal complexity. For example, Cisco abandoned a structure that supported customer alignment, in its attempt to “address costly redundancies” ([Gulati, 2007, p. 102](#)). The inherent tensions in customer-aligned structures also leave managers without clear guidance about how different organizational structures might undermine or amplify the impacts of marketing and sales. Thus, this article conceptualizes and empirically examines *how customer-aligned structural designs leverage the returns on advertising and personal selling investments*, so that we can advance research on the contingent nature of the promotional mix–performance linkage.

Using a unique, multisource, secondary data set that captures the organizational structure of publicly traded U.S. firms listed in *Selling Power* magazine over 1999–2012, we obtain empirical support for a theoretical foundation that describes how a structural design that fosters customer alignment can influence the performance effects of advertising and personal selling. The trade-off involved in promotional mix investments across different structures often makes it difficult for managers to assess their net impact. Our post hoc analysis offers more managerially relevant insights into the net effects of promotional mix on performance, using the elasticity of advertising and personal selling. Overall, our results are robust across various performance metrics (gross margin, return on assets, and brand equity) and time windows.

With these efforts, we derive three main contributions. First, to our knowledge, this article is the first to identify and integrate, in a single holistic model, two corporate-level, customer-aligned structural designs in an effort to understand how they strengthen or weaken the effects of advertising and personal selling on performance. We include *structural types*, which refer to whether a firm organizes its corporate-level business units around customer or product groups, and *structural granularity*, which is the extent

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