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Revisiting the relationship between marketing capabilities and firm performance: The moderating role of market orientation, marketing strategy and organisational power

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ABSTRACT

This study extends original insights of resource-advantage theory (Hunt & Morgan, 1995) to a specific analysis of the moderators of the capabilities–performance relationship such as market orientation, marketing strategy and organisational power. Using established measures and a representative sample of UK firms drawn from Verhoef and Leeflang's data (2009), our study tests new hypotheses to explain how different types of marketing capabilities contribute to firm performance. The application of resource-advantage theory advances theorising on both marketing and organisational antecedents of firm performance and the causal mechanisms by which competitive advantage is generated.

1. Introduction

Marketing plays a significant role in determining the strategic orientation and performance outcomes of the firm (Rust, Ambler, Carpenter, Kumar, & Srivastava, 2004; Srivastava & Reibstein, 2005). Capabilities in acquiring and transforming tangible and intangible resources are considered as an important determinant of value creation and competitive advantage (Hunt & Morgan, 1995; Hunt & Morgan, 2005; Morgan, 2012; Wang, Hu, & Hu, 2013; Kozlenkova, Samaha, & Palmatier, 2014). In increasingly fragmented and dynamic markets (Cavusgil, Seggie, & Talay, 2007), dynamic capabilities of utilising market knowledge become crucial to technological innovation (Bruni & Verona, 2009). Thus, dynamic marketing capabilities are defined in terms of absorptive capacity and knowledge management (Barrales-Molina, Martínez-López, & Gázquez-Abad, 2014). Given the continuing debate on marketing capabilities and performance (Rust et al., 2004; Srivastava & Reibstein, 2005; Vorhies & Morgan, 2005; Webster, Malter, & Ganesan, 2005), a more fine-grained research is called for on both marketing and organisational antecedents of firm performance and the causal mechanisms by which competitive advantage is generated.

This paper provides three main contributions to marketing research. The first contribution lies in explaining the conditions under which marketing and the marketing department contribute to competitive advantage. While the research on dynamic marketing capabilities is fostered by the advancement of relationship marketing and service-dominant logic, paradoxically practitioners are experiencing a loss of relevance and influence of the marketing department within the firm (Verhoef & Leeflang, 2009; Verhoef et al., 2011), with marketing departments being in jeopardy (Webster, 1992; Homburg, Workman, & Krohmer, 1999; Webster et al., 2005; O'Sullivan & Abela, 2007) and chief marketing officers (CMOs) fearing for job loss (Lee, 2012). Therefore, the research on marketing capabilities and performance shows an apparent tension between a paradigm shift towards a service-dominant logic and the loss of importance of the marketing department with the firm. The premise of this paper is that the tension can be reconciled by reconsidering the general propositions of resource-advantage (hereafter R-A) theory developed by Hunt and Morgan (1995, 1996, 1997) and Hunt (1997a, 1997b).

The second contribution consists in the creation of a new analytical framework that extend R-A theory by making use of Verhoef and Leeflang's (2009) work (hereafter VL). Although VL's model empirically investigating the changing role of the marketing department within firms is not underlined by any specific marketing theory, their work includes comprehensive indicators to measure intangible resources

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and marketing capabilities. Utilising these indicators, we focus on the moderation of the capabilities–performance relationship by market orientation, strategic orientation and organisational power. Such logic of analysis is implicit in the original formulation of R-A theory but has never been articulated explicitly and tested empirically.

The third contribution consists in using simple but strong established measures to test new hypotheses in line with R-A theory. The adoption of VL's constructs allows us to operationalise R-A theory's key propositions. Although VL's indicators were originally developed to explain the loss of influence of the marketing department within the firm, these measures are instrumental to analysing intra-firm capabilities (Zott, 2003). In particular, VL's dual measures of performance reduces the potential bias from relying on a single measure of financial performance as Hunt and Morgan (1996, p. 109) distinguish 'the firm's own performance in a previous time-period' from 'that of a set of rival firms'.

Our paper is structured as follows: section two presents our analytical framework after a brief evaluation of R-A theory. Section three describes the methodology, providing a detailed report of the research design and methods of data collection and analysis. Section four reports the empirical results and section five discusses the implications of our findings. We close the paper with the conclusions in section six. The main hypotheses of the paper are developed from R-A theory and tested with a sample of UK firms. All our hypotheses are partially supported, thus validating our analytical framework focusing on the moderators of the capabilities–performance relationship.

2. Analytical framework

2.1. Evaluation of R-A theory

R-A theory, first proposed by Hunt and Morgan (1995), is an evolutionary economic theory of competition founded on a disequilibrium paradigm. According to Hunt (1997a, p. 425), 'R-A theory tries to propose a unifying framework explaining how 'neoclassical and evolutionary theories – rather than being mutually exclusive – can complement each other'. Dickson (1996), in spite of supporting the disequilibrium approach, criticises the lack of dynamism in R-A theory. This criticism has led to a reformulation of the endogenous process within R-A theory, focusing on the role of the learning organisation (Hunt, 1997a). However, based on a paradigm-level analysis, Deligönül and Çavuşgil (1997) challenge the epistemology of R-A theory and argue that it cannot be distinguished from the perfect competition paradigm. In a reply to these authors, Hunt and Morgan (1997) highlight the disequilibrium provoking behaviour of firms in the process of endogenous innovation in contrast to the neoclassical view of the economic system as equilibrium.

Hunt (1997a, p. 429) defines R-A theory as: 'an evolutionary, disequilibrium-provoking, process theory of competition, in which innovation and organisational learning are endogenous, firms and consumers have imperfect information, and in which entrepreneurship, institutions and public policy affect economic performance'. The particular advantage of R-A theory is its close applicability to marketing and its contributions to marketing theory. The three main tenets of R-A theory relevant to our study consists of: 1) the existence of heterogeneity in tastes and preferences amongst industries, as proposed by Chamberlin (1933) who also coined the term 'product differentiation'; 2) the view that competition is a 'process that focuses on marketplace positions of competitive advantage' (Porter, 1985; Hunt, 1997a, p. 425); and 3) the conceptualisation of resources as both tangible and intangible (Morgan & Hunt, 1999).

The heterogeneity of tastes and preferences affects the strategy of firms with respect to competitors. Therefore, differentiation is required for satisfying dynamically changing demand (Davcik & Sharma, 2015) by offering diverse value propositions to heterogeneous market segments (Hunt, 1997a). Resources should be shifted in such a way to produce superior performance with respect to the objectives of the firm and with respect to the firm's competitive position (Hunt & Morgan, 1996). Morgan and Hunt (1999, p. 283) identify different types of resources generated in marketing relationships: 'financial, legal, physical, human, organisational, relational, and informational resources'.

Despite the plethora of research on marketing capabilities (Moorman & Slotegraaf, 1999; Vorhies & Morgan, 2005; Bruni & Verona, 2009; Morgan, Vorhies, & Mason, 2009; Day, 2011), there is little agreement on what to consider as marketing capabilities and how to measure them. Fundamentally, the research on marketing capabilities can be classified into two types: A) the ability to engage with advertising, pricing, product characteristics, distribution, communication, selling, planning and implement plans (Fahy et al., 2000; Morgan et al., 2009; Murray, Gao, & Kotabe, 2011; Smirnova, Naudé, Henneberg, Mouzas, & Kouchtch, 2011; Ngo & O'Cass, 2012); and B) accountability, the ability to connect with customer, innovativeness, collaboration and organisational power (Moorman & Rust, 1999; Rust et al., 2004; Verhoef et al., 2011).

2.2. Marketing capabilities and performance

Empirical research on the relationship between marketing capabilities and performance do not explicitly adopt R-A theory, whereas some studies draw on the resource-based view (RBV) (Barney, 1991, 2001; Penrose, 1959; Wernerfelt, 1984), as reported in Table 1. Although acknowledging 'the role of marketing specific resources such as brands and customer and distribution relationships in gaining and sustaining competitive advantage', RBV is limited in explaining the dynamic processes of resource transformation and value creation for customers through managerial guidance (Srivastava, Fahey, & Christensen, 2001:778).

On the other hand, R-A theory suggests that intangible capabilities 'could potentially enable a firm to produce a market offering for some market segments more efficiently or effectively than one's competitors' (Hunt & Morgan, 1995:11). Two main types of marketing capabilities can be identified from previous studies. The first type of capabilities is concerned with tactical marketing objectives rather than strategic objectives or organisational dynamics. The second type of capabilities consists of intangible resources underpinning marketing performance, not just financial performance. We develop our hypotheses around the second type of capabilities and marketing performance, given R-A theory's emphasis on institutional factors and endogenous innovation process.

Previous studies have used mostly financial measures of performance, despite the advantages of using more comprehensive measures (Smirnova et al., 2011; Theodosiou, Kehagias, & Katsikea, 2012). Therefore, we justify the use of two different measures of performance: one with respect to the firm's internal objectives and the other with respect to competitors' performance. The dual nature of performance is recognised by Hunt and Morgan (1996, p. 109): 'the specific measure of financial performance might be profits, return on assets, or return on equity, whereas the specific referent might be the firm's own performance in a previous time-period or that of a set of rival firms (…)'. As most previous studies have included direct effect models, our baseline hypothesis also tests direct models for a comparative perspective. Thus, our baseline hypothesis is:

H_{DE}. Marketing capabilities have a positive and direct effect on firm performance. (Model 1).

H_{DEa}. Marketing capabilities have a positive and direct effect on firm performance with respect to the firm's objectives. (Model 2).

H_{DEb}. Marketing capabilities have a positive and direct effect on firm performance with respect to the firm's competitors. (Model 3).

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