



# Facilitating dynamic marketing capabilities development for domestic and foreign firms in an emerging economy<sup>☆</sup>



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## ABSTRACT

While the strategy literature has long advocated the impact of strong firm dynamic capabilities on new product development, scant research has discussed how to build dynamic marketing capabilities (DMCs), a key component of dynamic capabilities, to improve innovation performance. Focusing on emerging economies, this study develops a framework for exploring the mechanisms of building strong DMCs from the perspective of both external (inter-organizational relationships) and internal (entrepreneurial orientation) factors. Using survey data from firms in China, the authors find that both vertical and horizontal relationship can facilitate the development of DMCs. Moreover, the impact of vertical relationship is stronger than that of horizontal relationships for domestic firms but weaker for foreign firms, because foreign and domestic firms have different levels of resource dependence on their partners. Furthermore, entrepreneurial orientation influences firms' willingness and ability to leverage the benefits from relationships, thus strengthening the impact of vertical relationships but weakening that of horizontal relationships. The study extends DMCs research into the area of international business by suggesting different approaches for firms to develop DMCs in domestic versus overseas markets.

## 1. Introduction

The past couple of decades have witnessed a large number of failures of once-innovative and successful companies, such as Kodak and Nokia. These companies failed not because they stopped introducing new products, but because their new products did not meet the changing demands of customers, thus generating low financial returns and weak competitive advantages (Binns, Harreld, O'Reilly, & Tushman, 2014). Theoretically, these failures highlight the importance of dynamic capabilities, that is, the “ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments” (Teece, Pisano, & Shuen, 1997, p. 516). Among the functional dimensions of dynamic capabilities, dynamic marketing capabilities (DMCs) are important, because they guide the innovation process to meet customers' needs (Fang & Zou, 2009). Strong DMCs are particularly important for firms operating overseas. Because of distinctly different marketing environments in the host country from those in the home country (Luo, 2007a) and the liability of foreignness (Zaheer, 1995), most foreign managers have difficulty in sensing and

responding to the rapid changes in local customers' demands. Therefore, it is imperative to answer the question: How can firms, particularly those operating overseas, build strong DMCs to improve innovation performance?

Although scholars have examined dynamic capabilities for more than a decade (e.g., Eisenhardt & Martin, 2000; Rindfleisch & Moorman, 2001; Teece, 2007; Wang & Ahmed, 2007; Yalcinkaya, Calantone, & Griffith, 2007), only recently have scholars begun conceptualizing and operationalizing DMCs and assessing their direct effects on firm performance (e.g., Bruni & Verona, 2009; Day, 2011; Fang & Zou, 2009). As a result, the understanding of how to build DMCs in domestic and foreign markets is limited.

To fill these gaps in the literature, we investigate the antecedents of building strong DMCs from the perspectives of both external (inter-organizational relationships) and internal factors (entrepreneurial orientation). Because this study focuses on the impact of DMCs on innovation performance and superior innovation performance requires instant and high-quality information and knowledge inputs, the information and knowledge conveyed from inter-organizational

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relationships are critical (Hoppner, Griffith, & White, 2015). Prior studies suggest that high-quality inter-organizational relationships with vertical partners (i.e., customers and suppliers) and horizontal partners (i.e., competitors) are essential for firms to obtain relevant and trustworthy information and resources in a timely manner (Lages, Silva, & Styles, 2009; McEvily & Marcus, 2005; Uzzi, 1996).

The impact of inter-organizational relationships on DMCs building, however, should not be examined in isolation of firm internal variables, because influences of relationships are contextually or culturally specific rather than universal (Li, Poppo, & Zhou, 2008). We carefully examine the moderating effect of internal factors. In particular, we focus on entrepreneurial orientation, an important cultural variable that indicates managers' willingness and ability to take risks, be proactive, and try innovative methods (e.g., Richard, Barnett, Dwyer, & Chadwick, 2004; Wiklund & Shepherd, 2005). The literature has suggested that entrepreneurial orientation has a significant impact on how organizational leaders interpret and respond to environmental uncertainty by forming inter-organizational relationships (Dickson & Weaver, 1997). We posit that the different levels of managers' entrepreneurial orientation may restrict their dependence on partners and consequently the levels of integrating and synergizing information and resources from their partners. Whereas some firms will trust and share information or knowledge with partners, others may hesitate to do so because of concerns about potential competition among partners.

Our research contributes to both marketing research and practice. First, extending DMCs studies, we propose a theoretical framework for developing DMCs from both vertical and horizontal relationship perspectives (see Fig. 1). Unlike prior studies focusing on either vertical (Dyer, 1997) or horizontal relationships (Gulati, 1999), we compare and contrast the mechanisms through which vertical and horizontal relationships foster DMCs. Our argument provides a sophisticated and complete framework of competitive coordination because it reveals how firms cooperate with not only the partners in the value chain (i.e., vertical relationship) but also potential competitors (i.e., horizontal relationship) to cope with market changes.

Second, this study extends the literature on inter-organizational relationship to the study of DMCs in an international business context. We argue that while both vertical and horizontal relationships can facilitate DMCs, their relative importance may differ for foreign versus domestic firms, because these firms may demand different information and resources from their partners, especially when foreign firms enter an emerging economy such as China. This study compares the impact of vertical and horizontal relationships and posits that for foreign firms horizontal relationships foster DMCs to a greater extent than vertical relationships; whereas for domestic firms vertical relationships may show stronger effects than horizontal ones. This comparison study not only enhances the limited literature on co-opetition (collaboration while competing) in horizontal relationships (Brandenburger & Nalebuff, 1996) but also deepens understanding of the conditions under

which each type of relationship takes effect. Future research on DMCs should differentiate DMCs development in domestic markets from that in foreign markets. These findings also offer important suggestions for domestic and foreign firm managers on how to allocate their time and efforts in managing alliance portfolios.

Third, we examine the moderating role of entrepreneurial orientation regarding the influence of inter-organizational relationships on DMCs development. We argue that entrepreneurial orientation strengthens the positive effects of vertical relationships on DMCs development but weakens the positive effects of horizontal relationships. By examining both facilitative and prohibitive effects of entrepreneurial orientation on relationship benefits, this study reveals potential constraints on using inter-organizational relationships to build firm DMCs.

## 2. Theoretical background and hypothesis development

### 2.1. Dynamic marketing capabilities (DMCs)

The concept of DMCs emerged from dynamic capabilities theory (Teece et al., 1997). In contrast to operational capabilities, which pertain to the current operations of an organization, dynamic capabilities refer to “the capacity of an organization to create new products and processes and respond to changing market conditions” (Helfat, 1997, p. 339). Fang and Zou (2009) focus on the critical role of the marketing function in dynamic capabilities research. They define DMCs as the responsiveness and efficiency of cross-functional business processes, which include product development management, supply chain management, and customer relationship management (Srivastava, Shervani, & Fahey, 1999), for creating and delivering customer value in response to market changes. Product development management is the cross-functional process of designing, developing, and launching new products to satisfy customer needs. By including this element, DMCs can help managers ascertain customer needs, identify new product ideas, design new product protocols, and manufacture and launch new products (e.g., Day, 2011; Fang & Zou, 2009). The supply chain management process includes designing, managing, and integrating the firm's supply chain with those of its suppliers and customers. By doing so, the firm may improve cost-structure and acceptance of new products (Graves & Willems, 2005). The customer relationship management process manages relationships with customers and channel members to learn about their needs and find ways to satisfy them. Successful firms not only respond to their current customer needs but also anticipate future trends and develop an idea, product, or service to meet future demands rapidly and effectively (Day, 2011; Day & Schoemaker, 2008). The firms can therefore stay ahead of their competitors in a dynamic market.

DMCs are different from market orientation, although the market orientation literature has also suggested that responsiveness to market changes, particularly customer and competitor changes is critical for

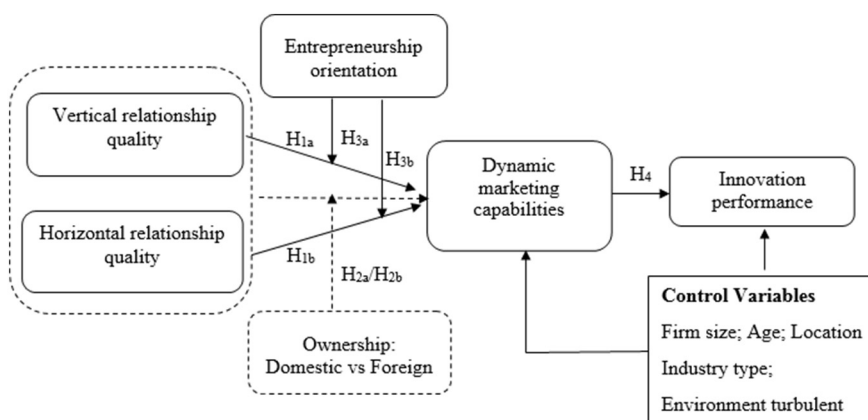


Fig. 1. Theoretical framework.

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