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## Industrial Marketing Management

Marketing capability, organizational adaptation and new product development performance<sup>☆</sup>Jifeng Mu<sup>\*</sup>

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## ABSTRACT

The authors propose a mediated moderation model that links marketing capability from an outside-in perspective, organizational adaptation mechanism exploitation and exploration, organizational structural factors, and new product development (NPD) performance. The model is tested using survey data from USA and China. The results suggest that marketing capability is positively associated with NPD performance. Moreover, exploitation and exploration respectively mediate the positive relationship between marketing capability and NPD performance. In addition, customer-based structure, decentralization, and interfunctional integration positively moderate the relationship between marketing capability and NPD performance. The results suggest that marketing capability is important for the firm to adapt to external changes as long as the firm aligns organizational structural factors with the requirement of marketing capability for exploitation and exploration in product innovation.

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## 1. Introduction

Scholars from different disciplines argue that the mounting velocity, complexity, and uncertainty of exogenous market change makes adaptation essential for firm organizations to survive and prosper. One way that firms adapt to change is to allocate limited resources across both the exploitation of the known and exploration of the novel as a central strategic trade-off (March, 1991). Important contributions have been made in understanding exploitation and exploration and their impact on performance (e.g., Gupta, Smith, & Shalley, 2006; Hoang & Rothaermel, 2010; March, 1991; Nohria & Gulati, 1996). However, the literature continues to be constrained by the question of what lead to exploitation and exploration<sup>1</sup> (e.g., Day, 2011; Gupta et al., 2006; Levie & Rosenkopf, 2006; Voss, Sirdeshmukh, & Voss, 2008; Zhou & Wu, 2010; Zhou & Li, 2010). Without knowing the antecedents of exploitation and exploration, a firm may not know how to allocate resources to strike a balance between exploitation and exploration (e.g., Gupta et al., 2006; Jansen, Frans, Den Bosch, & Volberd, 2006; Zhou & Wu, 2010).

The marketing literature has established the role of marketing capabilities in firm performance outcome such as firm performance

generally and new product development performance more specifically (e.g., Akdeniz, Gonzalez-Padron, & Calantone, 2010; Theodosiou, Kehagias, & Katsikea, 2012; Vorhies & Morgan, 2005; Yu, Ramanathan, & Nath, 2014). Although the contributions of previous studies are substantial, research from outside-in perspective has suggested that existing marketing capabilities cannot meet the requirement for firms to compete and prosper in the accelerated complex and changing external environment (Day, 2011; Day & Moorman, 2010). The growing gap is unquestionably costing firms profitability now and competitiveness in the future (Day, 2011). Noting this, both marketing scholars and practitioners are interested in understanding the mechanisms by which marketing capability can enhance firm adaptability while also producing the great productivity and competitiveness.

Recognizing the critical roles marketing capability in profit creation and competitive advantage, scholars suggest that firms develop a new marketing capability from an outside-in perspective to adapt to the accelerated changing market complexity and velocity (Day, 2011; Day & Moorman, 2010). However, no comprehensive construct exists in the literature that captures the key elements of a marketing capability from an outside-in perspective. Given the strategic importance of marketing capability in firm performance (Day, 2011; Fang & Zou, 2009; Vorhies & Morgan, 2005), research that considers its dimensions and its distinct contributions to organizational adaptation seems appropriate if we are to examine how marketing capability matters in organizational adaptation and product innovation performance.

In order to address these research gaps, in this research, we intend to shed light on these issues based on the new proposed construct marketing capability from an outside-in strategic perspective (e.g., Day, 2011).

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<sup>1</sup> Though marketing literature has few studies on the antecedents of organizational adaptation, in strategy and international business literature, a few studies have explored the antecedents of exploitation and exploration from different perspectives, e.g., Jansen et al. (2006), Levie and Rosenkopf (2006), Voss et al. (2008), Zhou and Wu (2010). We discussed their findings in theoretical implication section.

Our study aimed at helping to narrow the gap between what little is known about marketing capability from an outside-in perspective and its potential importance to performance. We intend to extend marketing capability theory from an outside-in perspective to examine organizational adaptability. We build a mediated moderation model that links marketing capability, exploitation and exploration, and organizational structural factors with NPD performance. Specifically, we explored if marketing capability from an outside-in view can help firms adapt to external environment through exploitation and exploration, which in turn, improve NPD performance.

Moreover, scholars have recognized the importance of organization structural design in firm performance and adaptation (Chandler, 1962; Day, 2006; Eisenhardt & Brown, 1999; Galbrith, 1973; Miller, Droge, & Toulouse, 1988; Nickerson & Zenger, 2002; Siggelkow & Levinthal, 2003; Teece, 2007; Thompson, 1967). Thus, organizational structural factors should play critical roles in the relationship between firm capability, adaptation and performance outcomes. Therefore, answering the call to study how organizational structural factors and marketing capability affect firm performance (Day, 2011; Marketing Science Institute (MSI), 2012), grounded on structural alignment theory (e.g., Day, 2006; Homburg, Workman, & Jensen, 2000; Kaplan & Norton, 1992), we explored three organizational factors (decentralization, customer-based structure, inter-functional integration) under which marketing capability affect exploitation and exploration that affect NPD performance.

Based on extensive review of literature and executive interviews, we develop marketing capability from an outside-in perspective as a composite construct that consists of an organization's fundamental belief for value creation in an increasingly open market environment: Market sensing, customer engaging and partner linking. Although scholars have highlighted the importance of customers, partners and sensitivity to market change for superior performance, the simultaneous consideration of customer engaging, market sensing and partner linking capability and the consequence of customer engaging, market sensing and partner linking capability have not received systematic investigation. Moreover, prior research explores the problem from an inside-out rather an outside-in perspective (Day, 2011). We argue that marketing capability from an outside-in review can help firms to adapt to external changes through exploitation and exploration. We also argue that three organizational factors decentralization, customer-based structure, inter-functional integration respectively moderate the relationship between marketing capability, and exploitation and exploration on NPD performance. To test the ideas, we utilized the survey data from both USA and China.

Our contributions to literature are three-fold. First, we advance marketing capability from an outside-in perspective. By developing the construct of marketing capability from an outside-in perspective, this research articulates and operationalizes, perhaps for the first time in the literature, one of the most fundamental notions of marketing and empirically demonstrates the impact of this notion on a firm's NPD outcome relative to its competitors.

Second, this study takes one step forward in bridging two separate streams of research on firm's adaptability and marketing capability. How a firm's marketing capability drives its adaptability has rarely been examined. This study is thus among the first to leverage marketing capability argument from an outside-in perspective (Day, 2011) and suggests that marketing capability drives performance by enabling the exploration and exploitation of market opportunities (March, 1991).

Third, recognizing that the organizational structures under which marketing capability from an outside-in perspective operate affecting exploitation, exploration, and performance outcome, grounded on organizational structural alignment theory, we examined the moderating role of customer-based structure, decentralization and interfunctional integration in the relationship between marketing capability, exploitation and exploration, and new product development performance. We

demonstrated that customer-based structure, decentralization, and inter-functional integration are important in determining how marketing capability affects exploitation, and exploration, and ultimately innovation performance. Thus, we answered the call to study how organizational structural factors influence marketing capability on firm performance (Day, 2011; Marketing Science Institute (MSI), 2012). Moreover, marketing activities need to be integrated into other business functions (Kumar, 2015). By answering how organizational structural factors affect marketing capability on firm performance, we also partially answered the call regarding how to completely integrate marketing activities with other business functions for superior firm performance (Kumar, 2015).

## 2. Theoretical foundation and framework

### 2.1. Outside-in perspective

The traditional view on business operation is inside-out, which suggests that a firm starts with its internal resources and asks what the market can do for itself (Day, 2011). As market power shifts to customers and the mounting complexity, velocity and unpredictability of market changes accelerate, inside-out perspective constrains a firm from adapting to the rapidly changing market environments (Day, 2011; Day & Moorman, 2010). The outside-in perspective mandates that a firm should start with a market and ask what it can do for the market (e.g., Day, 2011; Haeckel, 1999). Marketing scholars have the tradition to study marketing problems from an outside-in perspective. For example, the role of a market orientation was to shift the organization toward an explicit outside-in orientation (Day, 2011; Ketchen, Hult, & Slater, 2007; Srivastava, Shervani, & Fahey, 1998).

Market orientation emphasizes the importance of customers and external information in creating customer value and firm competitive advantage. However, market orientation has an implicit tendency toward exploitation (Day, 2011). Building on the literature of market orientation, the central tenet of outside-in perspective is that superior firm performance emanates from sensing, setting and managing customer expectations, and delivery of superior customer values and successful customer outcomes (Day, 2011; Day & Moorman, 2010; Srivastava et al., 1998). By becoming a customer value leader and innovating new values for both current and new customers, a firm would be able to cultivate strong customer bonds, consequently generating customer loyalty, which is the key to firm profitability.

Delivery of customer value and successful customer outcomes is premised on deep market insights into customer needs, partners' and competitors' moves, and market evolution (Day, 2011). Sensing and responding to these market requirements and events eventually turns a firm into an adaptive enterprise. The market information that gives rise to the deep insights is garnered from interactions with customers, network ties with business partners, and sensitivity to market signals. External connections not only provide firms access to complementary skills, resources and capabilities but also afford firms a wide spectrum of information, thus fostering the growth of market insights (e.g. Day, 2011; Dyer & Singh, 1998; Mu & Di Benedetto, 2012). In summary, the outside-in perspective centers on insights from customer engaging, partner linking and market sensing as the sustainable source of superior firm performance, where efficiency and effectiveness are prerequisites for superior business performance. In this research, we develop a new construct: Marketing capability from an outside-in perspective. We intend to explore the role of marketing capability in organization adaptability and new product development performance.

### 2.2. Exploitation versus exploration

The overall strategy of an organization for adaptation is to invest resources in activities and processes that promote exploration or

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