

Marketing Subunits and Business Performance

Seigyoung Auh*

Thunderbird School of Global Management, 1 Global Place, Glendale, AZ 85306-6000, USA.

E-mail: seigyoungauh@gmail.com

Omar Merlo

Judge Business School, University of Cambridge, Cambridge CB21AG, United Kingdom.

E-mail: o.merlo@jbs.cam.ac.uk

*Presenting author

ABSTRACT

While marketing continues to gain prominence as an orientation within the firm, questions remain about the role of the marketing function. The study investigates (1) whether the existence of a powerful marketing department is beneficial to financial performance, (2) whether a powerful marketing department explains any additional variance in financial performance above and beyond that explained by a market orientation, and (3) whether specific environmental factors affect the marketing power-performance relationship. The study confirms that a powerful marketing subunit has beneficial effects on performance above and beyond the adoption of a market orientation, and that this effect is stronger in highly competitive markets, turbulent markets, and markets exhibiting strong potential.

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INTRODUCTION

A perceived lack of accountability has undermined the credibility of marketing within the firm, threatened its standing and even its existence as a distinct capability within the firm (Rust et al. 2004). Marketing has been declared either dead, irrelevant, or powerless (Schultz 2005). Yet, although some studies have explored how to strengthen marketing's role within the firm (e.g., Homburg et al. 1999; Verhoef and Leeflang 2009), empirical evidence pertaining to the link between a powerful marketing department and financial performance is still scarce or inconclusive at best. The current economic downturn has further highlighted the need to address this issue. The recession has led many organizations to make indiscriminate cuts to the resources allocated to the marketing function (Quelch and Jocz 2009). And while most organizations believe that maintaining a market orientation is important to weather the storm, many of them feel that they can do without a powerful marketing department. The underlying assumption seems to be that strengthening a market orientation is a profitable investment, while empowering the marketing function is an unnecessary expense.

This paper responds to calls for further research on the link between marketing departments and business performance (e.g., Verhoef and Leeflang 2009). We address concerns that marketing research has largely neglected the performance implications of how marketing is organized within the firm (e.g., Workman et al. 1998). Ultimately, we examine whether the current and well-documented erosion of the power of the marketing function (e.g., Brown 2005; Verhoef and Leeflang 2009) is a worrisome trend, considering the potential contributions that a powerful marketing subunit can make to business performance.

THEORETICAL BACKGROUND

Studies of marketing's role within the firm may be divided into three broad categories. First, there is research that assesses marketing's role as an *orientation or culture*, typically assessing its impact on performance (for a review see Kirca et al. 2005; Langerak 2003). A second category of studies has analyzed the role of marketing as an *organizational function*. This body of literature has been concerned primarily with the determinants of marketing subunit influence (Homburg et al. 1999). A third stream of research has adopted an *integrative perspective* that considers marketing's role concurrently as a function and an orientation. The first of such studies was carried out a decade ago by Moorman and Rust (1999). More recently, Verhoef and Leeflang (2009) investigated the determinants and consequences of marketing's influence within the firm, and explored the link between marketing as a function and as an orientation. Remarkably, they found that a marketing department's influence has positive performance outcomes only because of its link to a market orientation. Hence, they note: "the failure of the marketing department's influence to explain significant incremental variance in performance beyond market orientation calls for further research" (p. 30). Our study also represents a response to this call.

The conceptual foundation of this study rests on power theory, and more specifically the strategic contingencies view of power, which has been identified as the theoretical perspective that is most suitable to the study of subunit influence in marketing (Merlo et al. 2004). Hickson et al.'s (1971) strategic contingencies theory posits that there are three key elements of power: (1) a function's ability to cope with uncertainty, (2) its substitutability, and (3) its centrality within the workflow of activities. In accordance with this perspective, we conceptualize the power of the marketing function in terms of (1) the marketing function's

relative ability to cope with uncertainty, (2) its relative unsubstitutability among business functions, and (3) its relative centrality.

HYPOTHESES

Our model predicts that a powerful marketing department is associated with superior financial performance and that this link is affected by a set of contingency factors. We also control for the level of market orientation of the firm, because the influence of marketing within the firm may take place in at least two fundamentally different ways (as a department or as an orientation) and because we wish to test whether marketing as a function explains variance in performance above and beyond a market orientation. A further control variable, CEO background, is included in the model to account for the fact that the functional orientation of senior management may also be a further means through which marketing can be influential within the firm despite a small and/or weak marketing subunit

Numerous claims have been made in support of the fact that the marketing function is critical to a firm's success. Due to its boundary-spanning role, marketing should be among the most powerful subunits (Wind and Robertson 1983). The key role of a strong marketing function in achieving success is also shared by a number of practitioners (Kheir-El-Din 1991). Biggadike (1981, p. 631) observes that even if marketing is seen merely as "one of the business functions", it is a crucial one because of its concern with the external environment. While there may be a growing tendency to think of marketing "less as a function and more as a set of values and processes that all functions participate in implementing" (Moorman and Rust 1999, p.180), some evidence indicates that a strong marketing department continues to be beneficial to business performance (Merlo and Auh 2009; Moorman and Rust 1999; Verhoef and Leeflang 2009). Thus, we make the following prediction:

H₁: The higher the level of power of the marketing function, the stronger the business performance above and beyond the effect of market orientation.

The performance effects of a powerful marketing function may vary according to a set of market and competitive factors, reflecting the view that the marketing function plays more or less of a crucial role depending on external contingencies (Homburg et al. 1999; Verhoef and Leeflang 2009).

Competitive intensity. When competition is low, a business tends to perform well because customers have limited alternatives and hence are more likely to buy from the organization (Houston 1986; Kohli and Jaworski 1990). In contrast, in highly competitive markets customers have a greater number of options and the organization faces more challenges to attract and retain customers (Jaworski and Kohli 1993). Such challenges may be handled effectively by a powerful marketing department. For example, under conditions of intense competition, marketing's ability to cope with uncertainty, its unsubstitutability, and centrality are expected to become more crucial to achieving organizational objectives. Being the function "closest" to the customer, marketing is in a unique position to provide information and input into the development of strategies to maintain high levels of demand and repeat purchases. A function that copes with uncertainty in a competitive market is in a position to exercise increased influence, through the dependencies that are created (Atuahene-Gima and Evangelista 2000), and it can improve business performance because of the firm's improved ability to cope with externalities. Based on these considerations, we predict:

H₂: The higher the competitive intensity, the stronger the relationship between marketing's power and business performance controlling for the effect of market orientation.

Market turbulence. Businesses operating in turbulent markets are expected to benefit from stronger marketing departments, as customer preferences fluctuate to a larger extent, and hence need to be monitored and measured constantly. Cravens and Woodruff (1986), for example, highlight the importance of effective marketing capabilities in more turbulent environments. Similar observations have been made by Cunningham (1987), Stanton and Futrell (1987) and Michaels (1982). As Jaworski and Kohli (1993) observe, organizations operating in turbulent markets require more efforts to identify and respond to changing customer preferences. As these are some of the typical responsibilities of marketing departments, marketing's activities, such as coping with customer-related uncertainty, become more beneficial to financial performance. Therefore, we make the following prediction:

H₃: The higher the market turbulence, the stronger the relationship between marketing's power and business performance controlling for the effect of market orientation.

Market potential. If the market displays strong potential, marketing should be among the first functions to identify and respond to this potential. As Wind and Robertson (1983) argue, marketing is the function most suited to an assessment of consumer needs, and can provide crucial information on how to satisfy them. Market potential is crucial to product-market investment decisions, and marketing can contribute to performance by identifying and exploiting this potential. When the level of market potential is high, responding to changes in the external environment promptly and effectively becomes a priority for business success. In this context, subunits that deal primarily with the external environment—rather than those concerned with activities that are mainly internal to the organization—tend to become strategically crucial to business performance (Jemison 1981). Thus, it is hypothesized that:

H₄: The higher the market potential, the stronger the relationship between marketing's power and business performance controlling for the effect of market orientation.

METHODOLOGY

The sample frame came from a national mailing list consisting of a random selection of 600 contacts in medium and large firms (50 employees or more) in a variety of manufacturing industries. The unit of analysis was the strategic business unit (SBU), and data were collected employing a self-administered field survey questionnaire distributed by mail. A key informant methodology was employed (Seidler 1974). The most appropriate key informants were organizational members who could provide retrospective data on the input and performance of members of different subunits. Because participants in a decision-making process tend to overstate their own influence (Atuahene-Gima and Evangelista 2000), key informants were senior managers (Managing Directors, CEOs, and people in equivalent positions). Using only key informants at the senior managerial level with high levels of confidence (assessed with a survey item) reduced the likelihood of common method bias (Rindfleisch et al. 2008). The final sample consisted of 122 questionnaires, for a response rate of 22.8%. Absence of non-response bias was confirmed (Armstrong and Overton 1977).

All measures were based on existing scales, or were adapted from previous studies. The power measures were developed based on Lachman (1989), Hinings et al. (1974) and Homburg et al (1999). Market turbulence, competitive intensity, and market potential were

measured drawing from Jaworski and Kohli (1993) and Song and Parry (1997). Market orientation was measured using the sub-dimensions of customer orientation, competitor orientation, and inter-functional coordination, as suggested by Narver and Slater (1990). Business performance was measured using three items: level of cash flow, fluctuation of cash flow, and profitability, because we wanted to tap into the financial performance of firms. CEO background was measured using a dichotomous variable (1=marketing; 0=others). SBU size was measured as the log transformation of the number of employees.

ANALYSES AND RESULTS

Confirmatory factor analyses (CFA) confirmed the psychometric properties of the multi-item scales. Reliability, convergent validity (Bagozzi and Yi 1988; Naman and Slevin 1993) and discriminant validity (Fornell and Larcker 1981) were confirmed.

The model was specified as follows: $Business\ performance = \alpha_0 + \beta_1\ SBU\ size\ (log) + \beta_2\ CEO\ background + \beta_3\ MO + \beta_4\ MP + \epsilon_1$. Where MO = Market orientation, and MP = Marketing power.

To test the main effect hypothesis (H1) concerning the relationship between marketing power and business performance, we used hierarchical regression. Marketing power was found to have a positive effect on business performance ($b = .39, p < .01$) above and beyond market orientation, providing support for H1. We used subgroup analysis to test H2-H4. With regard to H2, at low levels of market potential, our model explained 8% of variance of business performance ($R^2 = .07, F=1.17, ns$), while at high levels of market potential the model was able to explain 25% of variance of business performance ($R^2 = .25, F=4.85, p < .01$). The coefficient for marketing power at high levels of market potential was positive and significant ($b = .37, p < .05$) while it was non-significant at low levels of market potential ($b = .41, ns$), providing support for H2. Similar results were found for H3 and H4. Regarding H3, at low levels of market turbulence, our model explained 8% of variance of business performance ($R^2 = .08, F=1.24, ns$), while at high levels, it explained 26% of variance of business performance ($R^2 = .26, F=4.79, p < .01$). At low levels of market turbulence, marketing power did not have a positive and significant effect on performance ($b = .15, ns$) while at high levels of market turbulence, it did have a positive and significant effect on performance ($b = .58, p < .01$). Therefore, H3 was supported. Finally, regarding H4, at low levels of competitive intensity, the model explained 20% of variance of performance ($R^2 = .20, F=3.08, p < .05$) while at high levels it explained 20% of variance ($R^2 = .20, F=3.70, p < .01$). In addition, at low levels of competitive intensity, as expected, marketing power did not have a positive and significant effect on business performance ($b = .32, ns$) while at high levels of competitive intensity, it did have a positive and significant effect on business performance ($b = .60, p < .01$). Consequently, H4 was also supported.

DISCUSSION AND IMPLICATIONS

Our study suggests that a powerful marketing function still makes an important contribution to a firm's financial performance. Thus, the alleged decline of the marketing subunit is a trend that should be monitored carefully. The findings suggest that weakening the marketing function can have negative effects on the size of a firm's cash flow, it can make a firm's cash flow more volatile, and it can harm profitability. While the simultaneous "downsizing" of the formal marketing function and "upsizing" of marketing as an orientation may be a widespread trend, it is not necessarily a welcome one from a performance point of view. The benefits gained from an increased reliance on a market orientation may be offset to

some extent by the concomitant dilution of the power of the marketing subunit. The marketing function continues to play an important role within the firm, even in strongly market oriented firms. Our findings also allow us to put to the test the predictions about the role of marketing made in the 1990s. At that time, a number of observers dismissed claims of a “crisis of marketing”, and argued that marketing will and should coexist alongside a market orientation as a functional group (e.g., Greyser 1997; Varadarajan 1992; Webster 1997; Workman et al. 1998). After more than a decade of further growth of marketing as a set of processes that everyone throughout the firm participates in deploying (Moorman and Rust 1999), our findings provide support for the position that “marketing specialists are needed” (Webster 1997, p.66). And not only are marketing specialists still needed, but when they are allowed to become a powerful force within the organization, they can make a crucial contribution to financial performance.

Our findings also suggest that the contribution of a strong marketing function is all the more important for organizations competing in highly turbulent and competitive markets. When market conditions are particularly turbulent and competitive (as they are, for example, in the current economic environment), organizations may wish to leverage rather than indiscriminately scale back their marketing function. Maintaining marketing resources and budgets at current levels, or even increasing them, can represent an opportunity to maintain or improve profitability when market conditions are unstable. An aggressive business that nurtures the power of its marketing function may even take advantage of a downturn to become more profitable than a more conservative and complacent competitor that downsizes or curtails the power of its marketing function. For example, the marketing function may be instrumental in understanding how customers’ needs are changing, adjust segmentation strategies accordingly, and adapt product and pricing strategies.

Therefore, in conclusion, our study unequivocally indicates the following: First, marketing subunits should continue to play a crucial role in contemporary organizations, despite the recent trend towards dispersing marketing activities. Second, a powerful marketing function is associated with improved financial performance above and beyond the impact of marketing within the firm as a culture or orientation. Third, the marketing function becomes especially instrumental and should be empowered in particular under conditions of heightened competitive intensity, market turbulence, and market potential. Collectively, these findings suggest that the erosion of the power of the marketing function, if indeed real, is a worrisome trend that should be monitored very closely. And this is even more of a concern for companies facing unstable and cutthroat markets. Of course, establishing a link between marketing and financial performance is only part of the challenge. What remains to be done is convincing other organizational functions and key decision makers of the benefits of maintaining or even strengthening the power of the marketing function within the firm.

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