

Exploring marketing effectiveness via market orientation, resource possession and marketing capability

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Abstract

This paper focuses specifically on marketing resource possession, and marketing capability deployment within the broader theoretical domain of resource based theory. We argue that “possession of valuable resources” (resource-possession) does not fully explain economic rent differentials between firms. Instead, the effect that resource-possession has on economic rent depends on “what firms do with their resources” (capability-deployment). This contention is tested by examining the relationship between market orientation (MO), marketing resource possession, marketing resource deployment, and marketing effectiveness.

Keywords: RBV, marketing resources, marketing capabilities, market orientation

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Introduction

Since its inception, many scholars have proffered the resource-based view (RBV) of the firm as a key theory to explain performance differentials between firms. It has reached the point, where it has assumed a central focus of scholars' attention across various disciplines, including marketing (Barney et al, 2001). RBV proponents contend that firm resources are the key drivers of firm performance (i.e., economic rent) (Barney, 1991; Barney, Wright, & Ketchen, 2001; Coff, 1999; Hart, 1995; Makadok, 2001; Peteraf, 1993; Wernerfelt, 1984). On this point, one of the most important issues within the resource-based view is the nature of the interaction between resources and resource deployment capabilities in performance outcomes (Makadok, 2001). Taking this point under consideration as well as work by Vorhies and Morgan (2003) one could conclude that RBV theory offers the potential to better understand how firms organize marketing to achieve superior performance outcomes. This issue can be couched within the context of the marketing resources possessed by firm and their capability to deploy such resources. As such, successful outcomes depend on the firms' possession of specific resources and their capacity to deploy them effectively. It is this complementarity between resources and capability that provides marketing effectiveness. While the extant literature has given attention to the investment phase of resources with resource-picking (Makadok, 2001) or the entrepreneurial phase of resources with resource-discovery (Foss & Ishikawa, 2007), what is missing, is the interaction between resource-possession (the acquisition phase of resources) and capability building in firm performance outcome. Indeed, capability-building effects firm performance only after the acquisition of resources (Makadok, 2001). As such, resource-possession and capability-building can not be isolated in rent-creation process. While resource picking and capability building are seen as being substitutes for each other (Hitt et al., 1991; Makadok, 2001), we see that resource-possession and capability building complement each other in creating superior performance.

Theoretical foundations and conceptual model

For managers, a key strategic challenge is to identify, develop, deploy and protect resources that have the potential to yield competitive advantage, as well as possess and utilize specific capabilities in such a way as to provide their firms with a sustainable competitive advantage that delivers superior returns (Amit and Shoemaker 1993). From a resource-based perspective, firms' are considered heterogeneous in relation to their resources and capabilities. These characteristics as such largely provide the basis for competition and determine the competitiveness of firms in a given market. Taking on board these arguments and placing them within current theoretical developments on firms and firm performance, we suggest a marketing resource-capability theory that points to the importance of firm-specific factors in explaining performance variations through a marketing lens. Pursuing this we focus exclusively on marketing to propose an alternative view and approach to testing the resource-based logic, in which we argue that "possession of valuable (marketing) resources" (resource-possession) does not explain fully performance differentials between firms. Instead, the effect marketing resource-possession has on economic rent depends on "what firms do with their marketing resources" (marketing capability building). In addition, the MO influences what resources are to be possessed (e.g. marketing resources possession) and what firms do with the possessed resources (e.g. marketing capability). . In short, the organization of the firm is

considered a firm-level orientation, strategy, or context that encourages a general and unified approach to the utilization of its resources.

The contention is raised that resources are of no real value to the firm in isolation. Instead, they reaffirm that the latent value of resources can only be made available via dynamic capabilities. While it is acknowledged that it necessary for a firm to possess valuable, rare, inimitable, non-substitutable resources and capabilities, it is also understood that such a condition is nonetheless insufficient. In addition to possessing the key ingredients, firms searching for a competitive advantage must also possess the ability to alter such strategic ingredients in ways that realize their full (-maximized) potential. The performance differentials as such come from the creation of synergistic configurations of the resources and capabilities to deploy the resources.

Business orientations reflect the firm's philosophy of doing business through a deeply rooted set of beliefs that guides the firm's attempt to create economic rent (Noble, Sinha & Kumar, 2002; Zhou, Yim, & Tse, 2005). For example, innovation orientation is based on the belief of the willingness to change that encourages and fosters the adoption of new ideas throughout the firm (Hurley & Hult, 1998). On the other hand, production orientation, which focuses predominantly on the production efficiencies, which seek to deliver offerings to the customer at attractive prices, while selling orientation emphasizes short-term sales maximization (Noble, Sinha, & Kumar, 2002). The focus here is MO as a driver of resource possession and in this sense; a firm may follow a MO if it places a high priority on market information acquisition and processing activity (Baker and Sinkula 1999; Hurley and Hult 1998). MO has been used extensively as a building block for research identifying and studying firm-specific factors that are argued to explain firm performance differentials. Drawing on the extant debate on this issue and the resource-based theory of the firm, we argue that the contribution of MO to firm performance should be examined within the theoretical lens of resources and capabilities, where MO could be viewed as a valuable element. At its core, MO places significant emphasis on the profitable creation and maintenance of superior customer value, and those supporting its impact endorse it as the conduit for staying close to the customer (Slater and Narver 1998) and for its ability to enhance firm performance (e.g., Hult and Ketchen 2001; Kirca, Jayachandran, and Bearden 2005; Zhou, Yim, and Tse 2005). However, despite the strong appeal of MO, significant debate has appeared in various journals about its impact, often focusing on how, and to what extent MO contributes directly or indirectly to firm performance (e.g., Hult, Ketchen, and Slater 2005; Ketchen, Hult, and Slater 2007). Further, there is a need to focus on the processes by which MO affects performance, which helps focus our attention on which resources and capabilities impact performance and to what extent. This issue, includes MO, but also extends to exploring resource acquisition and capability building as interfaces with MO to drive performance.

According to RBV theorists, competitive advantage stems from a firm's unique resources that are valuable, rare, and inimitable (Barney 1991). Therefore, MO is valuable in that it enables firms to better serve their target markets. Following the literature, we view MO as: (1) a firm-level belief or unifying frame of reference that emphasizes serving the customer (Deshpandé et al., 1993; Homburg & Pflesser, 2000) or understanding buyers' current and latent needs (Narver & Slater, 1990; Slater & Narver, 1999). Further, we raise the contention here that MO provides through this belief an underlying logic for firms about which resources to acquire and how better to deploy them. We contend this because the underlying premise of MO's effect is value creation capacity; however, value creation requires resources and effective deployment of them. As such we contend that firm that possess higher-levels of MO

will be better at knowing which resources to acquire and will be better at deploying them. That is MO belief is a primary driver of resource possession and resource deployment ability. Thus,

Hypothesis 1: MO positively influences marketing resource possession

Hypothesis 2: MO positively influences marketing capability deployment

Resource-capability complementarities are a distinctive feature of the resource-based logic that help explain economic rent differentials. Importantly, resources are seen (in an intangible sense) as skills and knowledge possessed by the firm. They are characterized as static, operand (produce no effect), people dependent, and transferable. On the other hand, capabilities are business processes that apply resources to create value. They are characterized as dynamic, operant (effect operand resources), process dependent, and built up on resources. Possessing valuable resources is not sufficient in generating economic rent. Instead, business processes are essential as they facilitate the manipulation of resources into the rent creation process (Ray, Barney, & Muhanna, 2004; Helfat, 2000; Wiklund & Shepherd, 2003). Thus,

Hypothesis 3: Marketing resource possession positively influences marketing effectiveness

Hypothesis 4: Marketing resource deployment positively influences marketing effectiveness

While it is acknowledged that it necessary for a firm to possess valuable, rare, inimitable, non-substitutable resources and capabilities, it is also understood that such a condition is nonetheless insufficient. In addition to possessing the key ingredients, firms searching for a competitive advantage must also possess the ability to alter such strategic ingredients in ways that realize their full (-maximized) potential. This is due to the fact that the challenge is to identify, develop, deploy and protect resources and possess and utilize capabilities in such a way as to provide their firms with a sustainable competitive advantage and as such deliver superior rent returns (Amit and Shoemaker 1993). This view introduces the interaction between possessed resources and their deployment, or what we term here resource deployment. This interaction ostensibly occurs through the complementary nature of the resource and the deployment ability of the firm to deploy its value resources. Thus,

Hypothesis 5: Marketing resource deployment and marketing resource possession will interact to positively affect marketing effectiveness (in addition to the main effects).

Method

We designed an empirical study to collect data from manufacturing and service firms (in Australia). Although the selection of the sample was based on convenience, we considered variations in firms across the manufacturing and service sector as a suitable environment to test the theory. We focused this study on manufacturing and service firms operating in 20 different two-digit Standard Industrial Classification code industries (20, 30, 40) to not only provide a reasonably similar context for respondents but also to be broad enough for the results to be generalizable. A sample of 1000 firms was selected from a National Business Database identifying senior marketing managers in single-business firms with >20 employees operating in these industries.

Building on the work of Kohli and Jaworski (1990) and Zhou et al (2005) we developed a set of six items that tap the MO beliefs (intelligence generation, dissemination and responsiveness). Cronbach's alpha for this scale was 0.92. We measured marketing resource possession using four items about the availability of knowledge and skills necessary for the engagement of marketing mix activities. Cronbach's alpha for this scale was 0.97. We measured marketing resource deployment (marketing capability) using four items. Cronbach's

alpha for this scale was .98. We measured marketing effectiveness using four items, tapping the effectiveness of marketing mix outcomes (e.g. sales, market share, profitability, and overall performance) relative to their major competitors. Cronbach's alpha for this scale was 0.91. Items were rated on 7-point scales ranging from 1, *very poor*, to 7, *very good*; *strongly disagree* to *strongly agree*; and *not at all* to *extensively*.

We received 301 useable surveys, producing a response rate of 30 percent. All the indicators in the outer-measurement models had acceptable bootstrap critical ratios (> 1.96) with loadings (0.75 to 0.96) greater than the recommended 0.5 (Hulland, 1999), thus demonstrating adequate individual item reliabilities. Average variance extracted (AVEs) values for all constructs were uniformly acceptable ranging from 0.71 to 0.91. We examined convergent validity using the internal consistency measure (composite reliability) developed by Fornell and Larcker (1981), which is considered a better choice than coefficient alpha (Shook et al. 2004). Internal consistency values for all constructs ranged from 0.91 to 0.98 and were above the threshold of .70 (c.f Nunnally, 1978). We assessed the discriminant validity of the four constructs using the Fornell and Larcker (1981) suggestion that, if the square root of the AVE is greater than all corresponding correlations. The square roots of the AVE values are consistently greater than correlations. Having established confidence in measurement models, we examine main effects by estimating Model A (non-interaction model). We estimate our model using partial least squares (PLS), following the procedure recommended by Chin, Marcolin, and Newsted (2003) to test the linkages in the interaction model. First, indicators reflecting the constructs that form the interaction effect were standardized to reduce the risk of multicollinearity and make for a better interpretation (Aiken and West, 1991). PLS was then used to estimate both outer-measurement models and the inner structural model. Results indicate that the predictive relevance of Model A, examined via the average variance accounted for (AVA) was of acceptable magnitude at 0.16 as shown in Table 1.

Table 1 Partial Least Squares Results for Theoretical Model

Hypothesized Proposed Path	Model A (non-interaction)				Model B (interaction)			
	Path weights	Path variance	R ²	Critical ratio	Path weights	Path variance	R ²	Critical ratio
Hypothesis 1 MO belief → marketing resource possession	0.36	0.130 ^a	0.13	6.64 ^b	0.36	0.130 ^a	0.13	6.66 ^b
Hypothesis 2 MO belief → marketing resource deployment	0.41	0.168 ^a	0.17	8.31 ^b	0.41	0.168 ^a	0.17	8.37 ^b
Hypothesis 3 Marketing resource possession → marketing effectiveness	0.38	0.167 ^a	0.19	4.81 ^b	0.44	0.194 ^a	0.22	5.67 ^b
Hypothesis 4 Marketing resource possession → marketing resource deployment	0.08	0.029 ^a		0.96	0.07	0.025		0.83
Hypothesis 5 Marketing resource possession * marketing resource deployment → marketing effectiveness					0.17	0.005		2.83 ^b
AVA			0.16				0.17	

Note: ^a exceeds minimum acceptable level 0.015; ^b exceeds minimum acceptable level 1.96, $p < .01$

Hypothesis 1, which argues that MO belief positively influences marketing resource possession, is supported ($\beta=0.36$, $t=6.64$). As predicted by Hypothesis 2, MO belief positively significantly influences marketing resource deployment ($\beta=0.41$; $t\text{-value}=8.31$). We also found that marketing resource possession positively and significantly influences marketing effectiveness ($\beta=0.38$; $t=4.81$), supporting Hypothesis 3. Hypothesis 4 predicts a positive

effect of marketing resource deployment on marketing effectiveness is not supported ($\beta=0.08$; $t=0.96$). Second, we included the interaction variable in addition to main effects and estimated Model B (interaction [moderated] model). The results show that the interaction term positively influence marketing effectiveness ($\beta=0.17$; $t\text{-value}=2.83$), thus supporting Hypothesis 5. The predictive relevance of Model B (AVA) was of acceptable magnitude at 0.17. Using procedures suggested by Tabachnik and Fidell (1996), we found that the R^2 increase (ΔR^2) attributable to the interaction effect is statistically significant at 0.05 ($F_{1, 298} = 11.46 > F_{\text{critical}} = 3.84$).

Discussion and conclusion

Our findings suggest that there is a contingent relationship between a business orientation and its corresponding resources and capabilities. For example, firms with the belief that planning and executing marketing mix activities are essential for superior economic rent should possess marketing-related resources and develop marketing capabilities. Third, our findings guide resource-based scholars that investigations of the relationship between resources, capabilities, and firm performance should be conducted at the business process level within firms. Our findings complement Ray, Barney, and Muhanna (2004) and Ethiraj et al. (2005) and suggest that the considerable body of research on firm's business orientation (e.g. innovation orientation, production orientation, selling orientation) and business processes (e.g. innovation, production, and selling) can be used for greater exploration of the resource-capability logic at business process level.

Our findings are limited to some extent in relation to the subjective measures used, potential biases in the measures is acknowledged as no single measurement approach is without error. The interpretation of the findings is limited because of the self-reported measures. However, it is important to remember the use of subjective measures is common in the marketing literature and the measures were psychometrically sound. Also, while the data were collected from a variety of industries, and thereby reached a greater source of variance, the generalizability of the findings is still limited, as other types of organizations, such as non-profit organizations are not represented. Furthermore, because firms from a variety of industries are included, possible industry differences could confound the findings.

In response to what we saw as a missing link between possession of resources and their exploitation, we sought to expand knowledge of how firms' achieve rents not because they have better resources, but rather because of their distinctive competence involves making better use of resources.

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