

What does “good” look like?

A three country examination of marketing practice.

Abstract

Grounded in configuration theory, this study investigates the notion of co-alignment of business orientation, marketing assets and marketing capabilities, and their relationships to performance. Using these criteria, profiles of high performing businesses were derived and assessed against a three country sample of Brazil, China and the UK. Findings are consistent, statistically significant and invariant across the sample. They show that businesses with ideal profiles significantly outperform competitors in terms of market-based performance, customer satisfaction, and financial performance. Furthermore, profiles of top performing organizations are similar across countries with respect to their orientations, assets, and capabilities. Only customer-based assets, network capabilities, and customer and shareholder orientations were different. Implications and future research directions are subsequently addressed.

Keywords: Strategic Profiles, Co-alignment, Profile Deviation

Track: Marketing Strategy

1. Introduction

Organizational co-alignment, or the “efficient alignment of organizational resources and capabilities with environmental opportunities and threats” (Venkatraman, 1990, p. 19), is described as an important and central concept in management research (Venkatraman, 1990; Venkatraman & Prescott, 1990). While theory development has occurred in the strategic management literature, little empirical investigation has taken place in the marketing domain, with notable exceptions i.e. Vorhies and Morgan (2003). Here specific profiles of marketing assets were shown to have a stronger impact on superior organizational performance. These findings alone do not present a compelling theoretical case, and have failed to initiate other studies in this area. Further testing, and theory development is required in this important area, as a dearth of studies in the marketing literature is at odds with the current importance of how organizations should best configure scarce marketing resources in-line with intensely competitive environments (Slater & Olsen, 2000; Walker & Ruekert, 1987; Workman et al., 1998). With this in mind, this study tests organizational co-alignment structures, and their influence upon organizational performance. We compare top performing organizations, firstly against other companies in their country, and then against other top performing companies across three countries. The remainder of this paper is structured as follows. In the following sections, we position the study within the extant literature, develop testable hypotheses, review our method and analysis, and present our results, discussion, and conclusions, including future research directions.

2. Theory and Hypothesis Development

Organizational co-alignment is a central theme in management literature, and states that organizations that co-align resources and strategy with their environment will outperform those that do not (Aldrich, 1979; Thompson, 1967; Venkatraman, 1990; Porter, 1980; Miles & Snow, 1978). Organizational co-alignment has generally been investigated through a configurational approach, cited as the most appropriate and promising method for assessing coalignment (Drazin & Van de Ven, 1985; Venkatraman, 1989, Venkatraman & Prescott, 1990). In essence, organizational profiles of resource configurations, identified through a configurational approach, provide insight into organizational coalignment. In our study, we consider organizational profiles as composed of orientations, assets and capabilities.

In this paper business orientation is defined as the way in which an organization attempts to serve the diverse needs of stakeholder groups. Miller (1990) suggests that through adopting a specific business orientation, an organization can acquire and deploy specific marketing assets and marketing capabilities. Additionally however, it is also suggested that the availability of marketing assets and marketing capabilities may lead to adoption of a certain business orientation. Hence neither adoption of a specific business orientation or a specific co-alignment of marketing assets and marketing capabilities is sufficient to achieve superior performance in isolation. It is the combination, or profile, of these factors that creates superior performance, in a given competitive context.

Marketing assets are resource endowments that a firm has accumulated over time, and that can be deployed to create competitive advantage (Amit & Schoemaker, 1993; Day, 1994; Fahy & Smithee, 1999; Grant, 1991). There are several definitions of marketing assets. Srivastava et al. (1998) identified relational and information assets. Doyle (2001) proposed market knowledge, brands, customer loyalty, and strategic relationships. Hooley et al. (1998) identified four types of marketing assets: customer-based assets, such as brands and reputation; internal assets, such as information and cost control systems; supply chain assets,

such as relationships with intermediaries; and alliance-based assets, such as market access, and shared technology.

Marketing capabilities are defined as managerial skills and accumulated knowledge for deploying resources to create a competitive advantage (Day, 1994; Eisenhardt & Martin, 2000; Fahy & Smithee, 1999; Grant, 1991; Mahoney, 1995; Teece et al., 1997). Here we examine: a) Outside-in capabilities (those related to building, maintaining, and enhancing relationships with customers (Day, 1994), b) Inside-out capabilities (that allow for effective market participation), c) Spanning capabilities (those that integrate inside-out and outside-in capabilities), and d) Networking capabilities (those required to manage relationships with suppliers and other strategic partners).

Given a certain business orientation, marketing assets require processes to deploy them, in order to yield market products and services that customers are willing to pay for (Amit & Schoemaker, 1993; Eisenhardt & Martin, 2000; Makadok, 2001). Accumulation of certain marketing assets leads to a focus on the selection of marketing capabilities to make best use of them. Hence, in summary, organizations that co-align business orientation and marketing assets and marketing capabilities within a specific competitive context, will exhibit an ideal profile (for that environment), with a commensurate and positive impact on organizational performance. The more organizations deviate from an ideal profile, within a specific competitive environment, the lesser their performance. While there is some evidence in the literature of “discrete,” one country studies investigating numerous relationships between business strategy, marketing assets and capabilities and performance, no empirically based theory building has occurred to test the robustness of these assertions cross-culturally. More formally, in relation to our three country sample, we propose:

H1: High performing organizations will exhibit an “ideal” profile, and the more organizations deviate from this profile, the worse organizational performance.

H2: “Ideal” profiles are globally applicable, and high performing organizations may exhibit similar profiles of business orientation, marketing assets and marketing capabilities.

3. Method and Analysis

Data were collected as part of the Marketing in the 21st Century project (Greenley et al., 2005; Hooley et al., 2005). Our survey used behavioural measures as these are less likely to suffer from common method variance than cognitive constructs (Rindfleisch et al., 2008). We also performed a comparison of early and late respondents on key constructs in each data set (Armstrong & Overton, 1977), and found no differences. We thus conclude that method and response bias is unlikely in our samples.

Marketing assets (customer-based assets, internal assets, supply chain assets, alliance assets) were measured with three, three, three and four items respectively, taken from Greenley et al. (2005). Marketing capabilities (outside-in capabilities, inside-out capabilities, spanning capabilities, networking capabilities) were measured with three, four, four and three items respectively, taken from Greenley et al. (2005). Two firm orientations (customer orientation, competitor orientation) were measured using five and three items respectively, taken from Narver and Slater (1990), while the remaining two orientations (employee orientation, stakeholder orientation) were measured with four and three items, respectively, taken from Greenley et al. (2005). Finally, performance (financial performance, market performance, and customer satisfaction) were measured with three, two and two items respectively, taken from Hooley et al. (2005). We used a multi-dimensional measure of firm performance, including financial, customer satisfaction, and overall market effectiveness, because this is recommended for research in an international context (Hult et al., 2008). All

constructs were measured on 7-point scales, with higher numbered responses indicating greater levels of the relevant construct.

The issue of measurement invariance is crucial when trying to investigate group differences and/or similarities between datasets. Measurement invariance implies that items for a given construct are understood and interpreted in the same manner across different samples (Vandenberg & Lance, 2000). Hence, testing for measurement invariance ensures that potential similarities or differences can be interpreted reliably (Vandenberg & Lance, 2000). It should be noted that 'full' measurement invariance is rarely obtained in practical applications and in such circumstances researchers need to at least attain 'partial' measurement invariance (Steenkamp & Baumgartner, 1998). Full metric invariance implies that all the factor loadings are equal in both samples. If this does not hold then at least one item for each scale needs to be metrically invariant (other than the item used to define the scale of the construct, i.e. the item fixed at one) to display partial metric invariance (Byrne et al., 1989; Steenkamp & Baumgartner, 1998). Subsequently, a partially scalar invariant model was specified. Although the chi-square was significant ($\chi^2(2911) = 7746.11, p=0.000$), the RMSEA of 0.0674 indicated an acceptable fit and two other practical fit indices were also above the commonly recommended 0.9 level (CFI = 0.915, TLI = 0.913). All factor loadings were highly significant in all countries and 26 out of 35 standardised factor loadings exceeded 0.6 (the minimum loading was 0.42). Of the 35 items 11 were sequentially relaxed supporting a partially scalar invariant model.

To test Hypothesis 1, we conducted a profile deviation analysis. In order to conduct the profile deviation analysis, we created sub-samples within each country. We created a sub-sample of the top 10% of performers in each country, based on overall performance. We also created a random sub-sample of another 10% of companies, to act as a calibration sample. Both sub-samples were the same size. In Brazil, these sub-samples contained 34 companies, in China the sub-samples contained 35 companies and in the UK there were 44 companies in each sub-sample. Selection of 10% of the overall sample as group sizes is consistent with previous profile configuration research (Venkatraman & Prescott, 1990; Vorhies & Morgan, 2003). For each sub-sample, a strategic profile was developed by taking mean of the four asset categories, the four capability categories, and the four firm orientations. To create profile deviation scores for the top 10% of companies, the mean levels of assets, capabilities, and orientations for the top 10% of companies were subtracted from the mean levels of assets, capabilities and orientations for the remaining companies. The differences were then squared (to remove any negative values, meaning that positive scores indicate greater profile deviations) and summed to create an overall measure of profile deviation. In order that the units of measurement remained consistent, we took the square root of the profile deviation scores. This square root is then used as an indicator of profile deviation. We followed this procedure for the calculation of profile deviation scores for the random 10% of companies.

The profile deviation scores were then entered into a regression equation. The results are presented in Table 1. In the case of the top 10% of companies, a significant negative regression coefficient indicates that greater deviation from the ideal (i.e. top 10%) profile results in worse performance for the company. In the case of the random 10% of companies, a non-significant regression coefficient provides support for the robustness of the profile deviation test, and more support for the relationship between profile deviation and performance (Venkatraman & Prescott, 1990). Following the profile deviation analysis, we compared the top 10% of companies across the three countries on all constructs of interest. This enabled us to test Hypothesis 2. In order to compare companies from the three countries, we conducted one-way ANOVA tests for each variable. The results of this analysis are reported in Table 2.

4. Results and Discussion

This study set out to test two hypotheses. Hypothesis 1 stated that the greater a company's deviation from an ideal company profile, the worse its performance. The results presented in Table 1 lend support to this hypothesis, as across three different countries the greater the deviation from ideal profiles the lesser the performance of the company. More specifically, regression coefficients were -.292 for Brazil, -.238 for China, and -.382 for the UK, indicating a moderate negative association between profile deviation and performance. This indicates that within countries, there exist typologies for "good" companies, and that deviating from these profiles results in worse performance. Ideally, companies could use these results to benchmark themselves against the top performers in their country.

Hypothesis 2 stated that profiles for ideal companies will be similar across countries. Results presented in Table 2 appear to support this, as top 10% performance companies were similar to each other in 8 out of 12 of the assets, capabilities, and orientations. Companies exhibited no differences in their mean levels of: internal assets, supply chain assets, alliance assets, outside-in capabilities, inside-out capabilities, spanning capabilities, competitor orientation, and employee orientation. The evidence that these "ideal" profiles appear to translate across borders is interesting, as it signifies the existence of an ideal, global profile for successful companies. Companies adhering to good practices within one country can transfer these skills to other markets and operate with similar performance levels.

The main differences noted between the top 10% of companies across the three nations can be explained by the extant literature. First, the majority of service quality research has been developed in regions including the US and Europe. As a result, these areas are arguably further advanced in customer-focused activities than either Brazil or China (as evidenced by the UK Customer Excellence Awards and the Malcolm Baldrige Quality Awards). The infrastructure in Brazil and China for supporting service-focused practices is under developed in these regions. Therefore, the UK having greater customer-based assets than either Brazil or China is consistent with the literature. Second, Brazilians and Chinese place more emphasis on collectivism than the UK (Hofstede 2012). They value loyalty, with personal relationships prevailing over those related to task or organization. The importance placed on networking in these countries does not therefore come as a surprise. Third, Brazil has a heavy reliance on commodity exports to China, and a strong customer orientation should be seen as a facilitator of continued exporting success. Finally, many companies in China are still directly or indirectly controlled by the government (Wang, 2010), so high shareholder orientation could be expected. More surprising is that, although previous studies have suggested that this control is responsible for the poor profitability of Chinese companies (Chen, Firth, & Xu, 2009), our results indicate that despite having significantly greater shareholder orientation, Chinese companies outperformed Brazilian and UK firms.

5. Selected References

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Table 1: Profile Deviation Results for Brazil, China and UK

Variable	Brazil (N = 293)		China (N = 361)		United Kingdom (N = 445)	
	Top 10% (N = 34)	Random (N = 34)	Top 10% (N = 35)	Random (N = 35)	Top 10% (N = 44)	Random (N = 44)
Profile Deviation	-.296	-.023	-.230	.042	-.365	-.076
(t-value)	(-5.419***)	(-.277)	(-4.637***)	(.599)	(-7.174***)	(-1.037)
R ²	.103	.000	.062	.001	.114	.003
Adjusted R ²	.099	.000	.059	.000	.112	.000
F-ratio	29.369***	.077	21.499***	.359	51.468***	1.076

Dependent Variable: Company Performance

Top 10% = Top 10% of companies in country, based on performance

Random = Random 10% of companies in country

*** = $p < 0.001$

Table 2: Comparisons Top 10% of Companies in Brazil, China and UK

Variable	Brazil N=34	China N=35	UK N=44	F-Ratio	Significant Differences
Customer-Based Assets	4.373	4.067	4.402	4.408*	UK > China
Internal Assets	3.899	3.857	3.727	.659	No Significant Differences
Supply Chain Assets	3.773	3.744	3.616	.804	No Significant Differences
Alliance Assets	3.828	3.913	3.591	2.938	No Significant Differences
Overall Assets	3.975	3.899	3.844	.746	No Significant Differences
Outside-In Capabilities	4.316	4.153	4.402	1.731	No Significant Differences
Inside-Out Capabilities	4.034	4.028	4.092	.114	No Significant Differences
Spanning Capabilities	3.898	4.060	4.003	.715	No Significant Differences
Network Capabilities	3.921	4.134	3.503	8.568***	Brazil and China > UK
Overall Capabilities	4.031	4.091	4.000	.329	No Significant Differences
Customer Orientation	4.206	3.558	3.604	9.282***	Brazil > China and UK
Competitor Orientation	3.727	3.693	3.523	.729	No Significant Differences
Employee Orientation	3.892	4.248	4.091	2.163	No Significant Differences
Shareholder Orientation	2.810	3.877	2.531	23.764***	China > Brazil and UK
Overall Orientations	3.737	3.803	3.461	4.517*	China > UK
Overall Performance	4.546	4.705	4.558	11.594***	China > Brazil and UK

* = $p < 0.05$, ** = $p < 0.01$, *** = $p < 0.001$