THE EFFECTS OF MARKETING CAPABILITIES ON FIRM'S PERFORMANCE

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Abstract: *This paper aims to develop a conceptual model used in the empiric testing of a firm's marketing capabilities and describe the effects of these capabilities over organizational performance. Previous research explains performance differences between firms through the resource-based view and the structure-conduct-performance paradigm. Criticism towards these two perspectives, emerging from absence of a low competitive level market, lack of an explanation towards the manner in which resources are developed and how these need to be exploited to generate a competitive advantage and the shortage of solutions in dynamic environments has determined the development of the marketing capabilities perspective. Because of these limits, many of the studies in the area of strategic marketing reported a misperception of managers towards marketing and thus the focus of managers only on the operational dimension of marketing. A firm's marketing capabilities represent a multidimensional construct, a combination of human assets, market and organizational assets. The present research uses results collected through the processing of 121 questionnaires completed by large Romanian companies, and tests the existence of marketing capabilities and their effects on organizational performance in these firms through simple linear regression. The constructs' measurement scales are determined to be reliable because the Alpha Cronbach value exceeds 0.6. Validity of the constructs was proven through the use of factor analysis. Thus, the paper confirms the existence of marketing capabilities on a firm's level and its positive effect on performance. One major contribution of the present study is that it offers an addendum to empirical data on the effects of marketing capabilities over organizational performance available in literature.*

Keywords: marketing capabilities, performance, market effectivness

JEL classification: M310; M100

1. Introduction

The main reason to study marketing capabilities lies in their potential to influence customer satisfaction, market effectiveness and current profitability (Battor, Zairi and Francis, 2008; Fahy et.al, 2000; Morgan, 2012; Morgan, Vorhies și Mason, 2009; Vorhies, Orr and Bush, 2011) of an organization. Other research shows the importance for a firm to own this type of capabilities, especially towards acquiring a sustainble competitive advantage. (Miller, Eisenstat and Foote, 2002; Vorhies andMorgan, 2005; Weerawardena, 2003). Following the evolution of customers` needs, the movement of competitive forces and technological dynamics helps a firm prevent the failure of successful products. A system to monitor and register environment dynamics is useful to identify the nature of these changes and prevent failure. Companies characterized by a rapid ascent have the capabilities to develop new products before their competitors, therefore have the capability for a more flexible reaction to environment changes. Recent studies (Morgan, 2012; Morgan, Vorhies and Mason, 2009; Vorhies, Orr and Bush, 2011) show that managers consider marketing capabilities as a key contributing factor to firm performance differences. Other studies say that effects on firm performance are only seen in an emerging environment. Obtaining a potential competitive advantage through marketing capabilities depends mostly on managers' awareness of a need to change and type of change required. If a firms' need to change is limited, the opportunity to cover the costs required to develop marketing capabilities is also smaller (Keh et. al, 2007). Thus, employing marketing capabilities can be an essential factor for Romanian companies' performance. The cost to develop and use these will be experienced in their capacity to produce value. When a firm is required to change its structural capabilities, though rarely, as a consequence of the market or technological environment being stable, it's performance may be affected if it tries to significantly extend resources towards the acquisition of capabilities required for change. The present paper is structured as follows: a first part constituting a review of previous specialty literature on firm's marketing capabilities and their effects on firm performance, the second part, establishing the research hypothesis and methodology, and the final segment, which will present results attained through testing of the hypothesis and formulate conclusions, limitations, managerial implications and a future research direction.

2. Literature review

2.1. Marketing capabilities

The main question in strategic marketing literature pertains to the method used by firms to keep the competitive advantage. The concept of marketing capabilities was established through the theories on resource based view. Firms that adopted a "resource based strategy" invest in valuable technological goods, preserved in time through a firm stand on protecting intellectual property. Early research on resource based view advance the idea that a firm is an expanded set of resources (Wernerfelt,1984). Resource based view was never considered as essential as a result of the majority of these resources, such as technological abilities, being hard to measure and thus, bringing difficulties in quantifying their role in profit. Parallel research in the field of strategic management (Morgan, 2012; Morgan, Vorhies and Mason, 2009; Vorhies, Orr and Bush, 2011) proposes explaining the performance differences between firms through the use of the structure-conduct-performance paradigm. This paradigm quantifies firm performance differences by utilizing each firm's ability to find and exploit market imperfections to limit competitive rivalry and, thus, reduce price based tensions. Empirical results provided by studies committed to this perspective reaching a higher performance level (Battor, Zairi and Francis, 2008; Fahy et.al, 2000; Morgan, 2012; Morgan, Vorhies andMason, 2009; Vorhies, Orr ad Bush, 2011) are: investing in markets with a weaker competition and winning positioning advantages on these markets, advantages that can be obtained through creating and exploiting imperfections in these rivalry-limiting markets. In like manner to resource based view, this theory has its limits, such as it being applicable only to specific economical contexts. Because of the criticism brought to these perspectives, marketing capabilities has shown itself to be the main source of competitive advantage (Day, 1994). In the classification of marketing capabilities provided by Day (1994), two are recognized: market understanding capabilities and capabilities of establishing customer relationships. Hooley et al. (1998) proposes a hierarchical classification of marketing capabilities as such: strategic marketing capabilities (market segmentation capability, market positioning proficiency, etc.), interfunctional marketing capabilities (competence to develop new products, customer relationship management capabilities etc.) and operational marketing capabilities (capabilities meant to ensure implementation of the marketing strategy). On the other hand, Vorhies (2005) has demonstrated the existence of capabilities pertaining to the marketing mix, planning capabilities and implementing the marketing strategies and programs and sales management capabilities. Research performed by Möller and Anttila (1987) describe four subdomains or dimensions of a firms' management capabilities: the managements' capability of identifying the competition's position and main competitive advantages; capability to analyze the strategies employed by the competitors; analyzation capabilities of the suppliers' and distributors' strategies and the capability to analyze the weaknesses and strengths of a company. Morgan et al. (2009) describes the concept of marketing capabilities around the following dimensions: creating strategies and implementing marketing programs, managing market information, marketing planning; to these he also adds the following: development of new products and/or services, management of the distribution channels, marketing communication, price policy and sales policy. This research is meant to offer important managerial implications. Firms must understand the manner in which these capabilities will provide a distinctive character through organizational processes which will therefore increase performance.

2.2. The effects of marketing capabilities on firm's performance

The effects of marketing capabilities on a firm's performance may also derive from inferences based on negative incidents in the market, (Bruni and Verona, 2009; Vorhies, Harker and Rao, 1999) failure that usually spawn from rapid change. This change doesn't only represent huge transition costs or inability to honor the client's needs, but also costs resulting from the absence of a secure market. Because of these events, a need to identify, adapt to and coordinate activities and goods appears, especially complementary goods or resources which cannot be purchased. The task of marketing capabilities is to identify and coordinate at an organizational level, as opposed to an industry level, although strategic alliances with different companies can be involved. To accomplish the necessary coordination, the managers require information about changes happening in the technological environment and information about the changes happening customers needs. This information is not always available, and if it is possible to acquire it, is usually incomplete or subjective. (Vorhies and Harker, 2000). Managers must also benefit from information gathering capabilities, from analysis capabilities, from strategy making and implementing capabilities resulting from exploiting these marketing capabilities. This type of situations is managed in differing ways, but with the help of marketing capabilities, rules can be elaborated pertaining to the approach a firm takes. The existence of marketing capabilities inside a firm presumes creating such rules and routinely applying them when change is detected. Coordination and allocation capabilities of resources proposed in theory by the marketing capabilities determine how the market is modelled and vice versa. Therefore, the organizations and the markets evolve together. Albeit the need to coordinate and manage goods and resources together with investment choices can be the main issues which the capabilities provides solutions to the organization. These capabilities alone cannot influence the market without the existence of an answer from the competition, the providers and the clients. The approach towards capability advances the principle that the requirement of new products and processes spawns from combining information management capabilities with the potential developed to implement marketing strategies and programs. The renewal process of the organizational and strategic enterprises is essential to the firm's long term performance (Combe și Greenly, 2003; Heinrichs și Lin, 2008). Companies must strike a balance between exploring new opportunities and resource exploitation and renewal. The essence of capabilities is that competitive advantage (Vorhies and Morgan, 2005) only appears through developing, aligning and continual reconfiguration of goods or resources specific to each firm. The theory of capabilities distinguishes distinctive and difficult to copy resources developed by a company as a base for the defense of the competitive position. These resources, derived from an integrated combination of goods and capabilities, are cultivated over time and boost a firms' ability to adapt to change. Management's task is to determine the best way to exploit and improve these capabilities, although, over time, the challenge to develop such capabilities increases in difficulty (Day, 1994).To be able to cope with the changes imposed by the environmental factors, the firm needs to be able to monitor, analyse and understand them.

3. Hypothesis

The research performed on the concepts of firms' strategic and marketing capabilities links the two concepts through the contribution of marketing capabilities to the development of a concurential strategy founded on innovation. Advancement of the marketing capabilities is positively influenced by the intensity of the entrepreneurial spirit. Once generated, the marketing capabilities will increase the intensity of innovation at the firm level, thus, over time, developing a competitive advantage for a long period. (Weerawardena, 2003). The attention which the company attributes to customer needs trends, concurential forces and technology ensures an increase in performance. A monitoring system for the changes that happen in the environment is useful towards identifying further change and preventing failure. (Hooley et al., 1987). Because marketing capabilities differentiate between distinctive companies performance degrees, we expect the following hypothesis to be validated:

H1: Marketing capabilities positively influence firm's performance

Implementing client focused marketing capabilities (Vorhies, Orr and Bush, 2011), as well as the management's capability to analyze and understand the consumer needs, their affinity to formulating costumer interaction strategies, management's capacity to create interrelation structures between key customers and management's potential to build client dedicated strategies based on the afore mentioned capabilities influences a firm's performance level. Therefore, we believe that:

H2: Marketing capabilities have a positive influence towards customer satisfaction

Besides the environmental factors, the company is also influenced by external factors that impact daily activities. These enterprises (Miller, Eisenstat and Foote, 2002; Morgan, 2012; Morgan, Vorhies and Mason, 2009; Vorhies, Orr and Bush, 2011; Weerawardena, 2003) may be influenced by clients, competitors, supply chains or consultants, thus entailing the usage of strategy development capabilities and implementing of marketing programs capabilities, market information management capabilities, marketing palnning capabilities, channel management capabilities and marketing communication capabilities. All of the above helps to formulate the following hypothesis:

H3: Marketing capabilities positively influence a firm's market effectivness

The dimensions of an organization's marketing capabilities pertaining to its competitors (Combe și Greenly, 2003; Heinrichs and Lin, 2008) are: management's capability to identify the position, strategy and solution offered to the customer by the competitors and the main concurential advantages; management's capacity to create a comparative analysis of the strengths and weaknesses between said firm and its competitors; the possibility to analyze strategies employed by the competition towards their customers; management's capability to analyze the competitions' suplyers and channels. The existence of these factors is also an approach to increasing performance. As a consequence of these factors, we expect that:

H4: Marketing capabilities have a positive influence on the current profitability of the firm

4. Method

4.1 Sample and data gathering

The results of this study are collected through the use of a database composed of 1800 companies operating in Romania. All of these companies have a number of employees greater than 10 (are therefore medium and large firms) and operate in differnt fields. After the development of the data base, invitations have been e-mailed to top management of the 1800 companies to complete the online questionnaire. After two weeks from the sending of the first invitation, a reminder was sent through e-mail. Following this stage, the sample members were contacted through phone for an invitation to participate to the study. Finally a sample was created comprised of 121 companies.

4.2 Measures and measurement models

For the process of measurement during this study we have used previously recognized and accepted scales. To measure a firm's marketing capabilities and organizational performance we used the Vorhies and Morgan (2005) scale. The psychometric properties of the measuring scales are acceptable, α Cronbach exceeding the value of 0.6 for each of the constructs (Fornell and Larcker, 1981).

5. Results

The scales used for this paper have been shown to be trustworthy at an acceptable level, the alpha Cronbach value ranging from 0.760 to 0.840 for the dimensions of the marketing capabilities and 0.816 for firm performance

Table 1. Scale properties Cronbach's α at construct and dimension level

Construct and dimensions	Cronbach's α
Implementation capability	.778
Market information management capability	.808
Planning capability	.840
Product development capability	.823
Channel management capability	.802
Marketing communication capability	.779

Pricing capability	.769
Selling capability	.760
Firm performance	.816
Customer satisfaction	.802
Market effectiveness	.725
Current profitability	.686

For this research, we have tested four regression models towards validating the formulated hypotheses. The first model tests the direct effects of the implementation of marketing strategies and programs capabilities, managing market information capabilities, marketing planning capabilities, channel management capabilities, marketing communication capabilities, pricing capabilities and sales capabilities towards performance. The second model tests the direct effects of the dimensions of marketing capabilities over customer satisfaction.The third model tests the direct effects of marketing capabilities dimensions over a firm's market effectivness. The last model tests the direct effects of the dimensions of marketing capabilities on the current profitability of the company. Our results from testing these models are shown in table 2 and table 3.

Table 2. Results of testing the effect of all the dimensions of marketing capabilities on performance

Marketing capabilities	**Firm performance**	
	β	**p**
Implementation capability	.018	.839
Market information management capability	.129	.159
Planning capability	.113	.186
Product development capability	*.186*	*.013*
Channel management capability	*.262*	*.001*
Marketing communication capability	-.069	.458
Pricing capability	.101	.238
Selling capability	*.272*	*.002*

Testing the first model provides the following results: only the capability to develop new products, to manage distribution channels and manage sales has direct and significant effects (β=0.186, 0.262, 0.272; p=0.013, 0.001, and 0.002) on firm performance.

Table 3. Results of testing the effect of all the dimensions of marketing capabilities on customer satisfaction, market effectiveness and current profitability of the firm

Marketing capabilities	Customer satisfaction		Market effectiveness		Current profitability	
	β	p	β	p	β	p
Implementation capability	*.175*	*.057*	-.039	.723	-.084	.491
Market information management capability	.129	.166	.102	.361	.101	.416
Planning capability	.097	.261	.047	.650	.147	.204
Product development capability	.115	.130	.144	.114	*.220*	*.032*
Channel management capability	*.330*	*.000*	.146	.111	*.201*	*.049*

Marketing communication capability	.068	.470	-.071	.528	-.171	.178
Pricing capability	-.034	.697	.116	.266	.173	.137
Selling capability	.133	.124	*.400*	*.000*	.158	.172

Testing the other three models shows the following: only the market information management capability and channel management capability has a direct and significant effect (β=0.175, 0.330; p=0.057, 0.000) over customer satisfaction; only the sales management capabilities have a direct and significant effect (β=0.400; p=0.057, 0.000) on a firm's market effectivness; only the new product development capability and channel management capability have a direct and significant effect (β=0.220, 0.201; p=0.032, 0.049) on the current firm profitability. Among the three capabilities that show a strong influence on firm performance, only one influences financial performance. This means that improving the sales management capabilities will determine and increase the financial performance. With regards to the factors that determine the increase of customer satisfaction, we have detected the influence of a capability that does not manifest on general firm performance, namely the capability to implement strategies and marketing programs. A better knowledge of the market, of customers' needs and requirements, should contribute to a better response towards the organization with positive effects towards customer satisfaction.

6. Conclusions

Marketing capabilities contribute to monitoring client needs, concurential forces and the evolution of technology and, thus, prevents a firm's market decay. Although literature (Miller, Eisenstat andFoote, 2002; Morgan, 2012; Morgan, Vorhies and Mason, 2009; Vorhies, Orr and Bush, 2011; Weerawardena, 2003) presents the need to develop a capability to alert to market product changes and changes pertaining to clients and sees them useful, the results of the present study determine that only some of the marketing capabilities have an effect on firm performance. New product development capabilities, channel management capabilities and sales management capabilities represent the marketing capabilities having the biggest influence on organizational performance. The study shows a pragmatic character through the supply of empirical evidence, offering useful support to managers in decisions pertaining to the channeling of resources and abilities to developing marketing capabilities. This research, although offering important empirical proof, has several limitations. One such limitation is the small size of the sample. This determines a continuation of the process of data collection. Owning to this, it is impossible to provide and analysis on sub-samples based on specific domains of activity or size of the organization, although such an analysis could prove useful in obtaining information regarding dominant market practices in a specific field of activity. Another shortcoming resides in the investigation of only the direct effect and the interaction effect of marketing capabilities on performance, neglecting factors which might mediate these relationships. Further research could investigate such factors that connect marketing capabilities and organizational performance. To identify such factors that favor the more intense development of specific marketing capabilities is a requirement for future research into distinct fields of activity and types of organizations.

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