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The role of marketing departments in entrepreneurial firms and its impact on the market orientation-performance relationship

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Abstract

The study explores the optimum level of influence exercised by a marketing subunit for maximum business performance given the entrepreneurial orientation (EO) of the organization. It argues that the strength of the market orientation-performance link will vary depending on the alignment between the marketing function's influence and the entrepreneurial profile of the firm. 113 firms were classified into four groups: low EO/low marketing subunit influence (routine-oriented decentralizers, or RD), high EO/low marketing influence (entrepreneurial decentralizers, or ED), low EO/high marketing influence (routine-oriented centralizers, or RC), and high EO/high marketing influence (entrepreneurial centralizers, or EC). ANOVAs show that the effect of MO on performance increases for RC firms, while RD, ED and EC firms display a weaker link between MO and performance. The authors discuss the implications of these findings.

Keywords: entrepreneurial orientation, market orientation, marketing departments, business performance.

Track: marketing strategy.

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Introduction

Over the last few years, abundant evidence has been provided in support of the fact that a market orientation (for a review see Kirca, Jayachandran and Bearden 2005; Langerak 2003) and an entrepreneurial orientation (e.g., Barringer and Bluedorn 1999; Lumpkin and Dess 1996; Miller 1983) are associated with positive business performance. It has been shown that when marketing exercises a high level of influence as an orientation (or culture) within a highly entrepreneurially oriented firm, there may be noticeable performance gains for the firm (Matsuno, Mentzer and Ozsomer 2002).

There is, however, a further vehicle through which marketing can exercise influence within organizations besides an orientation. Numerous scholars (e.g., Moorman and Rust 1999; Piercy 1986; Varadarajan 1992; Webster 1992) have argued that the performance of marketing tasks may be viewed from either an activity-based perspective (e.g., market orientation (MO) as the responsibility of everyone) or a functional group perspective (e.g., the marketing department). Evidence suggests that marketing subunits make a significant contribution to firm performance beyond the contribution of an MO (Moorman and Rust 1999), but the question remains as to what is the optimal level of departmental influence for firm performance, and how it varies according to the entrepreneurial profile of the firm.

This study advances research on the linkages between entrepreneurial orientation and marketing's influence—which has hitherto taken an activity-based view of marketing—by employing an integrative approach that also draws from the functional group perspective. We present and test a theoretical model that predicts that there will be variations in the MO-performance link depending on the level of influence of marketing departments and the level of entrepreneurial orientation of the organization.

Marketing's Influence and Performance

Evidence regarding the influence of marketing departments and its impact on performance is sparse. Homburg et al. (1999) studied the relative influence of the marketing subunit within firms and the circumstances under which it is higher. They defined marketing's influence as 'the exercised power of the marketing subunit within a business unit, relative to other subunits, over activities important to the success of the business unit' (p. 2), a definition which we also adopt. Moorman and Rust (1999) explored the role of the marketing function in market oriented firms, and found that subunits contribute to financial performance, customer relationship performance and new product performance beyond the contribution of an MO. These findings suggest that there may be an optimum configuration of the two types of marketing's influence (i.e., as a function or as an orientation), for best performance. Thus, the MO-performance link may vary depending on the influence of the marketing subunit.

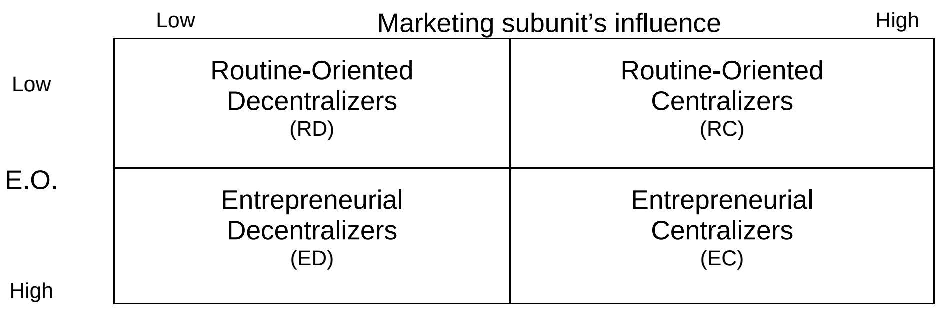
Evidence regarding whether an influential marketing function and a high MO are compatible or mutually exclusive is contradictory. We argue that the marketing literature points to two perspectives on the issue, a synergy and a substitution effect, and that both effects can have positive performance outcomes, depending on the entrepreneurial profile of the firm. The *synergy effect* posits that in combination, a strong MO and an influential marketing function are beneficial to firm performance. Marketing departments may function as 'evangelists' of MO—or be what Achrol and Kotler (1999, p.150) call the 'keeper of the faith'—because they act as the catalyst for the diffusion of a marketing culture throughout the firm. As Moorman and Rust (1999) argue, when an MO has penetrated the firm, not only is the marketing function still important to solve specific problems, but it may also be seen as the key boundary-spanning unit. On the other hand, the *substitution effect* posits that as a firm becomes more market oriented, the marketing subunit loses relevance. The literature points to tensions between marketing's influence from a functional area perspective and from an activity-based perspective (e.g., Day 1996). Wind (1996) notes that marketing as a function faces a decline, while marketing as a philosophy and orientation is becoming more important. This tension is also discussed by Webster (1989), who sees a bleak future for marketing departments. Influence can take place in fundamentally different ways, and as marketing becomes more a set of activities carried out by many people throughout the firm, marketing subunits may be seen as less useful. In fact, the cross-functional dispersion of marketing activities may weaken marketing departments (Workman, Homburg and Gruner 1998).

Notwithstanding these contradictory views, we believe that both the synergy and the substitution effects can be beneficial for firm performance under different conditions. In fact, strategic considerations will drive the extent to which the two perspectives can strengthen the MO-performance link. One of these considerations is the firm's entrepreneurial orientation, which we define, in accordance with Matsuno et al. (2002, p. 19), as the 'organization's predisposition to accept entrepreneurial processes, practices, and decision making, characterized by its preference for innovativeness, risk taking, and proactiveness'.

Research Hypotheses

Although an MO is generally associated with increased business performance, this relationship will vary according to the firm's configuration (i.e., the degree of reliance on the influence of marketing as a department or as an orientation) and the firm's strategy (i.e., the entrepreneurial profile of the organization).

Figure 1 - Categorization of firms based on EO and Marketing's Influence



There are marked differences between firms with different levels of entrepreneurial orientation. In established companies serving more stable markets, innovation is incremental, based on market research and on responding to existing needs better competitors. Entrepreneurial orientation may be low. These firms tend to be entities making incremental decisions, following established patterns of behavior derived from experience and based on an understanding of the market developed through repeat interaction (Schumpeter 1934). Thus, because these organizations identify a situation and apply routines that have been developed over time (Becker, Knudsen and March 2006), we term them 'routine-oriented'.

Routine-oriented firms may be separated into two types. The first are routine-oriented decentralizers (RD), where marketing departments exercise limited influence, and responsibility for marketing tasks is diluted throughout the firm. The second types are routine-oriented centralizers (RC), where marketing subunits are highly influential and marketing decisions are mostly concentrated within the function.

Being market oriented in the context of a routine-oriented firm involves meeting customers' expressed needs, rather than latent needs, and an inclination towards operating in stable and predictable environment to ensure adaptability (Atuahene-Gima and Ko 2001).

Innovation may be more incremental and driven by market research, with an emphasis on routines, experience, and gradual alterations to deal with small changes in the environment.

Therefore, routine-oriented organizations wishing to leverage the beneficial performance effects of an MO will tend to rely to a larger extent on marketing professionals to take charge. To be more effective, they will tend to become routine-oriented centralizers. In these firms the marketing function exercises a relatively high degree of influence, to help generate and disseminate market intelligence effectively, and to deal with the day-to-day management of the market. Marketing decisions and tasks associated with the development and implementation of an MO will be largely centralized within the marketing function. In fact, in organizations where the focus is more on established routines rather than on being entrepreneurial, the marketing function may be crucial to foster an MO, solve market-related problems, and act as the key boundary-spanning unit (Moorman and Rust 1999).

Thus, under conditions of low entrepreneurial orientation, there will be a ‘synergy effect’, as a strong MO and an influential marketing department combine to drive performance, making RC firms better performers than RD firms. The latter will not benefit from the synergy effect and are therefore expected to be worse performers.

> H_{1a}: *The effect of market orientation on firm performance increases under high marketing subunit influence when entrepreneurial orientation is low*.
>
> H_{1b}: *There is no effect of market orientation on firm performance under low marketing subunit influence and low entrepreneurial orientation*.

Entrepreneurially oriented firms, on the other hand, tend to explore new markets and anticipate needs. The approach that they take to innovation is experimental; they try to maximize the opportunities to uncover the random discoveries that occur when all organizational members have a say. Thus, marketing departments are not essential for an MO to improve performance. Although marketing departments will still play an important role (e.g., at the tactical level), a high degree of functional influence is not required, and the ‘substitution effect’ is more likely to be present. Entrepreneurial decentralizers (ED) (i.e., firms with high levels of entrepreneurial orientation and low levels of marketing subunit influence) are able to maximize the performance benefits of an MO by curtailing the influence of marketing professionals and involving everyone in marketing activities. On the other hand, entrepreneurial centralizers (EC) (i.e., organizations with high levels of entrepreneurial orientation and influential marketing subunits) will not benefit from the substitution effect and are therefore inefficient in their reliance on an MO.

According to Lumpkin and Dess (1996), an organization’s predisposition to the concept of entrepreneurial orientation is an important determinant of organizational structure and design. They suggest that the concept of entrepreneurship requires a level of autonomy and freedom that fosters creativity and the discovery of new ideas. Matsuno et al. (2002, p. 20) argue that this autonomy refers to ‘action taken free of structural constraints that stifle risk taking, exploration, and out-of-the-box thinking’. Hence, they conclude that high levels of departmentalization, formalization and centralization must be inconsistent with an entrepreneurial orientation. These same structural issues have been argued to be inconsistent with elements of an MO (e.g., Deshpandé and Zaltman 1982; Jaworski and Kohli 1993; Matsuno, Mentzer and Ozsomer 2002). Hence we expect that an entrepreneurially oriented organization wishing to leverage the positive performance effects of an MO will not rely to a large extent on the influence of an individual function, such as the marketing department. Rather, responsibility for many marketing tasks, such as exploring new opportunities and anticipating customer needs, will be less centralized, and every organizational function and actor will be encouraged to contribute.

> H_{2a}: *The effect of market orientation on firm performance increases under low marketing subunit influence when entrepreneurial orientation is high*.

H_{2b}: *There is no effect of market orientation on firm performance under high marketing subunit influence and low entrepreneurial orientation.*

Method

The sample frame comes from a national Australian list of a random selection of 600 contacts in medium and large manufacturing firms. The unit of analysis was the strategic business unit (SBU) and the key informant was one senior manager from each SBU. The questionnaire underwent an extensive drafting process and two pre-tests, and all key informants were contacted multiple times. The refinements made to the sample frame reduced it from 600 to 524 contacts. The data collection effort yielded 141 questionnaires, 113 of which were usable, for a response rate of 21.5 percent. Absence of non-response bias was confirmed employing Armstrong and Overton's (1977) procedure.

Based on Homburg et al. (1999) we operationalized marketing's influence by multiplying the importance of 11 strategic issues (e.g., pricing, distribution, advertising, etc.) for the success of the SBU (on a 1 to 10 scale) by the influence allocated to marketing for each issue (allocation of 100 points across various functions), which was then summated across all 11 issues and divided by the number of issues for which responses were given. Based on Narver and Slater (1990), market orientation was measured using customer orientation (six items), competitor orientation (four items), and inter-functional coordination (five items). Following Matsuno et al. (2002) and Miller (1983), entrepreneurial orientation was operationalized with innovativeness (two items), risk-taking (three items), and proactiveness (two items). Business performance was measured with five items tapping various aspects of performance ranging from cash flow, sales volume and market share to profitability.

Analysis and Results

We conducted confirmatory factor analysis (CFA) to assess the psychometric properties of the multi-item scales. The CFA provided an acceptable fit to the data ($\chi^2_{(324)} = 667.43$, $p < .001$, TLI = .88, CFI = .90; PNFI = .72; RMSEA = .09). Convergent and discriminant validity were confirmed employing the procedures recommended by Gerbing and Anderson (1988), Bagozzi and Yi (1988), Anderson and Gerbing (1988), and Fornell and Larker (1981). For hypothesis testing purposes, we performed a median split on MO, entrepreneurial orientation, and marketing's influence in order to create two groups (low vs. high). Absence of common method bias was confirmed by comparing the model fit of a single-factor model to the seven-factor measurement model.

Based on our median split on MO, marketing's influence, and entrepreneurial orientation, our hypotheses were tested using ANOVA: 2 (MO: low vs. high) x 2 (Marketing's influence: low vs. high) x 2 (Entrepreneurial orientation: low vs. high). Our hypotheses suggest a three-way interaction between MO, marketing's influence, and entrepreneurial orientation. In Table 1, we observe a significant three-way interaction between MO, marketing's influence, and entrepreneurial orientation ($F(1, 104) = 5.09$, $p < .05$). Consistent with H_{1a} and H_{1b}, follow-up contrasts indicate that when entrepreneurial orientation was low, the effect of MO on firm performance increased under high marketing department influence (MLow MO = 3.908, MHigh MO = 5.422, $F(1,20) = 5.407$, $p < .05$) but had no effect under low department influence (MLow MO = 4.876, MHigh MO = 4.517, $F(1,31) = .556$, $p > .46$). Furthermore, consistent with H_{2b}, follow-up contrasts also reveals that when entrepreneurial orientation was high the effect of MO on firm performance had no effect under high marketing department influence (MLow MO = 5.125, MHigh MO = 5.083, $F(1,26) = .009$, $p > .92$) but counter to H_{2a}, MO also had no effect on firm performance under low marketing department influence (MLow MO = 5.067, MHigh MO = 5.380, $F(1,27) = .596$, $p > .44$).

Table 1 - Results of Analysis of Variance (DV=Firm Performance)

Low Entrepreneurial Orientation				High Entrepreneurial Orientation			
Low Marketing Influence (RD)		High Marketing Influence (RC)		Low Marketing Influence (ED)		High Marketing Influence (EC)	
Low MO	High MO	Low MO	High MO	Low MO	High MO	Low MO	High MO
4.876 [a]	4.517	3.908	5.422	5.067	5.380	5.125	5.083
5.042 [b]	4.733	4.311	5.778	4.500	5.471	5.018	4.817
4.896 [c]	4.800	4.013	5.567	5.057	5.313	5.186	4.778
4.752 [d]	4.567	4.400	4.667	5.356	5.169	4.706	5.453

[a] Entrepreneurial Orientation-$F(1, 104) = 5.09$, $p < .05$
[b] Innovativeness-$F(1, 104) = 8.083$, $p < .01$
[c] Risk-taking-$F(1, 104) = 5.272$, $p < .05$
[d] Proactiveness-$F(1, 104) = .318$, $p > .50$

Discussion

Firms with lower levels of entrepreneurial orientation, and presumably operating in more established markets, may need to rely more on a very senior marketing manager and an influential marketing department. They may need to centralize around the marketing subunit to capitalize on the MO-performance link, and rely on a smaller number of key marketing players. Initiatives aimed at improving the marketing subunit's ability to deal effectively with uncertainty in the external environment should be supported, such as activities that improve the collection of market information, the capacity to deal with this information effectively, and the ability to share this information successfully with other functions.

In entrepreneurially oriented firms the marketing subunit seems unable to leverage the beneficial effects of an MO. Whether departmental influence is high or low, the link between MO and business performance remains unchanged. This suggests that in these firms it is desirable to have a flat hierarchy and representatives from all departments involved in market-related decision-making. Channels are desirable through which to communicate the MO culture of the firm. Besides formal channels, the development of social capital should also be facilitated, and both formal and informal activities meant to create and share knowledge across functions and hierarchical levels should be encouraged. These firms should also identify and rely on a large number of key employees (e.g., boundary spanning employees) with numerous weak ties (Granovetter 1973), as they may be the source of new ways of identifying latent needs and foster novel marketing ideas.

The fact that an influential marketing function appears to make no tangible difference performance-wise in entrepreneurial firms provides some support for concerns regarding the marketing function's inability to act as a source of imaginative ideas. Marketing professionals have been criticized by senior managers for being unable to design innovative strategies and for relying on traditional means of competing (Webster 1981). They have been accused of having a copycat mentality, for lacking a proactive vision (Lorange 2005) and for being unimaginative (Kotler 1999). Our findings are perhaps consistent with these concerns, as they suggest that in an entrepreneurially oriented firm, the marketing department is probably not the sources of those innovative and daring ideas that lie at the heart of entrepreneurship.

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