

# Marketing and business performance

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**Abstract** Academics and managers have struggled for many years to understand and delineate the role of marketing in explaining business performance differences between firms. Most of the theory base for any such attempts has to be informed by strategic management theory, since the primary question that strategic management seeks to answer is why some firms outperform others over time. This paper synthesizes three major streams of thought in strategic management with the empirical and theoretical literature on strategic marketing to develop an integrative theory-based conceptual framework linking marketing with firms' business performance.

**Keywords** Marketing strategy · Marketing resources · Marketing capabilities · Positional advantage · Competitors · Market performance · Financial performance

## Introduction

The role of marketing in explaining firms' business performance has received significant attention throughout the history of the marketing discipline. The need to link marketing with business performance has become more

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urgent as marketers have been forced to defend the value of their activities and budgets during the current global recession. Over the past two decades, researchers have considerably enhanced conceptual understanding of the role of marketing in enabling firms to create and sustain competitive advantage. Recent advances in the marketing–finance interface have also begun to provide more empirical evidence of the impact of specific marketing activities and different types of marketing-related assets on firms' accounting and financial market performance. As a result, the role of marketing in firms' business performance is much less of a “black box” than has been true in the past. However, as a discipline, we have often not done a great job of relating our enhanced understanding and growing empirical insight with the theories developed to explain firm performance in strategic management (e.g., Ketchen and Hult 2011). Yet some of these theories have the potential not only to help make greater sense of the various conceptual and empirical developments in marketing strategy research over the past 25 years for researchers, managers, and students, but also to inform how such developments can be integrated and provide a roadmap for where we may look next. Synthesizing some of the theories available in strategic management with the insights available in the marketing strategy literature to develop an integrated conceptual framework for linking marketing with business performance is the objective of this paper.

For much of the past three decades, examinations of competitive advantage and the resulting performance differences between firms in strategic management were dominated by the structure-conduct-performance (SCP) paradigm. The SCP paradigm views performance differences among firms in terms of the firm's ability to find or create and exploit market imperfections that reduce the competitive rivalry and resulting price competition faced (e.g., McGahan and Porter 1997; Porter 1991). From this perspec-

tive, business performance is fundamentally driven by the degree of competition in the marketplaces in which the firm chooses to operate, which in turn is a function of the structural characteristics of those marketplaces. Superior business performance is therefore achieved (1) by investing in markets low in competitive rivalry and (2) through gaining positional advantages within these markets that can be sustained through the creation and exploitation of market imperfections that limit competition (Porter 1980, 1985). The focus of strategy formation from the SCP perspective therefore centers on industry analysis and market selection (Teece et al. 1997), and this has been reflected in the multiplicity of tools of external analysis developed by strategic marketing academics and consultants.

Over the past 15 years however, the SCP approach has been challenged by the resource-based view (RBV), which views firm-specific resources rather than market characteristics as the cornerstone of competitive advantage and firm performance (e.g., Conner 1991; Peteraf 1993; Wernerfelt 1984). From this perspective, firms are idiosyncratic and somewhat “sticky” bundles of resources, with resource heterogeneity creating differences in each firm’s ability to conceive of and execute particular value-creating strategies which in turn lead to inter-firm performance differences (e.g., Amit and Shoemaker 1993; Miller and Shamsie 1996). Once a firm has effectively deployed its resources, any resulting competitive advantage is sustained by the inability of others to substitute or imitate the firm-specific combination of resources on which the firm’s strategy is based (Mahoney and Pandian 1992; Penrose 1959). The focus of strategy formation within the RBV is, therefore, the identification of key resources and the deployment of those firm-specific resources in markets where the greatest rent-earning potential exists (Amit and Shoemaker 1993; Grant 1991).

In turn, the RBV has been the subject of increasingly critical theoretical attention within strategic management. Most notably, critics have highlighted weaknesses in RBV theory’s inability to explain how resources are developed and deployed to achieve competitive advantage (e.g., Priem and Butler 2001) and its failure to consider the impact of dynamic market environments (e.g., Lengnick-Hall and Wolff 1999). In dealing with these weaknesses in traditional RBV theory, strategic management theorists have made a number of recent developments, collectively labeled “dynamic capabilities” (DC) theory (Newbert 2007; Zott 2003). DC theory posits that since marketplaces are dynamic, rather than simple heterogeneity in firms’ resource endowments, it is the capabilities by which firms’ resources are acquired and deployed in ways that match the firm’s market environment that explains business performance variance between firms over time (e.g., Eisenhardt and Martin 2000; Makadok 2001; Teece et al. 1997). From this perspective, DC theory views

*resources* as the stocks of tangible (e.g., plant and equipment) and intangible (e.g., knowledge, reputation) assets available to the firm, while *capabilities* are the processes by which the firm acquires new resources and transforms available resources into realized marketplace value offerings (e.g., Amit and Shoemaker 1993; Capron and Hulland 1999).

A firm’s capabilities develop when individuals and groups within the organization apply their knowledge and skills to acquire, combine, and transform available resources in ways that contribute to achieving the firm’s strategic goals (e.g., Mahoney and Pandian 1992; Teece et al. 1997). Capabilities, therefore, involve complex coordinated patterns of skills and knowledge that become embedded as organizational routines over time (Grant 1996a; Winter 2000) and are distinguished from other organizational processes by being performed well relative to rivals (Bingham et al. 2007; Ethiraj et al. 2005). These capabilities are dynamic when they enable the firm to implement new strategies to reflect changing market conditions by modifying the resources available to the firm and/or combining and transforming available resources in new and different ways (e.g., Teece et al. 1997).

Recent strategic management explanations of firm performance therefore indicate that while valuable, rare, inimitable, and non-substitutable resources may be beneficial to the firms that possess them, firms also require complementary capabilities in order to deploy available resources in ways that match the dynamic market conditions they face to drive business performance over time (e.g., Helfat and Raubitschek 2000; Teece et al. 1997). Some DC theorists have even suggested that such capabilities may be more valuable and have stronger inimitability and non-substitutability characteristics—and therefore a stronger relationship with business performance over time—than firms’ resource endowments (e.g., Collis 1995; Henderson and Cockburn 1996). Nonetheless, DC theory extensions to the RBV indicate that both resources and capabilities are important in explaining inter-firm performance variations, and that resources and capabilities also interact with one another in determining firm performance outcomes (e.g., Helfat 1997; Henderson and Cockburn 1996; Teece et al. 1997).

While marketing strategy researchers have often drawn upon one of these three dominant strategic management theories in setting up their hypothesized models, there have been few attempts to integrate the insights available from each perspective to provide a clear, comprehensive, and theoretically anchored framework linking marketing with firms’ business performance. This paper begins to address this important gap in the marketing literature. Specifically, this paper synthesizes the SCP, RBV, and DC theory perspectives in strategic management with extant strategic marketing theory conceptualizations and empirical findings

to develop a conceptual model linking marketing resources, capabilities, strategy, and business performance (Fig. 1). I then examine the implications of the new integrative conceptual framework for marketing researchers and managers. Finally, I develop and discuss avenues of future research suggested by the integrated conceptual model.

### An integrated conceptual framework

#### Marketing resources (and resources for marketing)

Resources are the assets controlled by the firm that serve as inputs to organizational capabilities and thus have rent-earning potential (Grant 1991; Miller and Shamsie 1996). As such, resources provide the “raw materials” for firms’ business and marketing strategies (Black and Boal 1994; Peteraf 1993). From a marketing perspective, marketing resources may therefore be defined as the assets available to marketers and others within the organization that—when transformed by the firm’s marketing capabilities—can create valuable outputs. A number of different resource typologies have been proposed in the strategic management literature. Integrating these suggests that an inclusive conceptualization of firm resources should include: tacit knowledge (e.g., Grant 1996b) and physical (e.g., Barney

1991), financial (e.g., Roos and Von-Krogh 1992), human (e.g., Wernerfelt 1984), organizational (e.g., Mahoney 1995), reputational (e.g., Hall 1992), relational (e.g., Morgan and Hunt 1994), informational (e.g., Chatterjee and Wernerfelt 1991), and legal (e.g., Coyne 1986) resources. While marketing resources have not been discussed explicitly in the literature in any depth, many marketing researchers have examined assets that fall within this typology of marketing resources. Each type of marketing resource is explicated in more detail below.

*Tacit knowledge resources* Tacit knowledge within firms is implicit and relates to the “know how” required to perform a task (Grant 1996b; Spender 1996). Tacit knowledge therefore underpins and is embedded in all organizational capabilities (Grant 1996a; Nelson and Winter 1982). Such implicit knowledge is difficult to codify and communicate and may only be obtained through direct experience. The tacit knowledge resource being deployed through organizational capabilities is often based upon organizational memory (Sinkula 1994) and includes managerial ability (Mahoney and Pandian 1992; Nelson and Winter 1982). Examples of marketing-related tacit knowledge include advertising creative selection, brand manager insight concerning the “essence” of a brand, and salesperson relationship-building approaches.

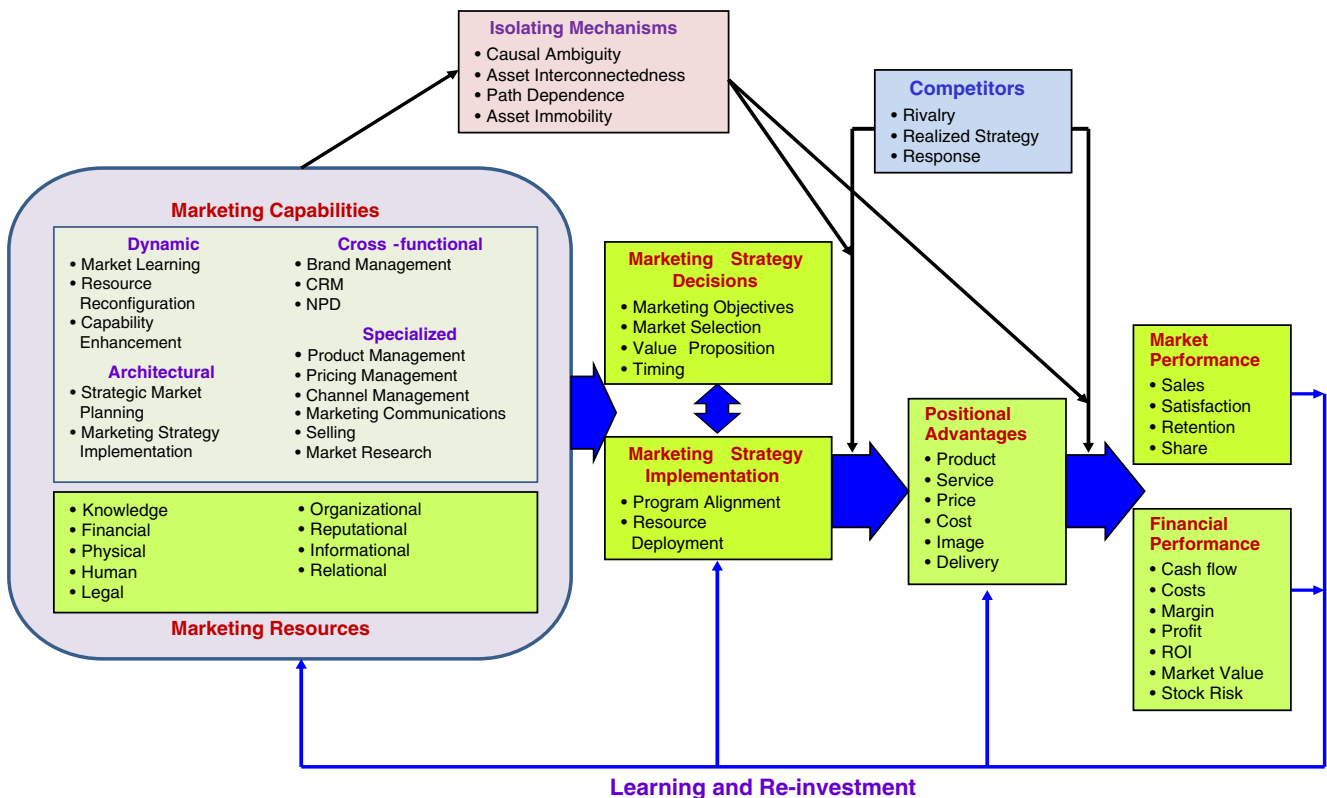


Fig. 1 A conceptual framework linking marketing and business performance

*Physical resources* Physical assets are also a class of resources relevant to marketing (Day and Wensley 1988; Hunt and Morgan 1995). Many different types of physical resources have been discussed in the marketing literature. For example, the services marketing literature highlights the importance of tangible facilities in affecting customer perceptions of service outcomes (e.g., Bitner 1992). Retail stores are also clearly a physical asset that is important to marketers. In a manufacturing context, plant and equipment and physical raw materials are also important in determining the quality of products produced (e.g., Morgan and Piercy 1996).

*Reputational resources* Two major marketing-related reputational assets have been identified and examined in the literature: corporate reputation and brand equity. Corporate reputation has been identified as an important corporate-level intangible asset (e.g., Hall 1993; Itami 1986) that has been empirically linked with consumer responses to marketing activity (e.g., Brown and Dacin 1997; Goldberg and Hartwick 1990) and with firm performance outcomes (e.g., Sutton and Callahan 1987). Brand equity has been defined in terms of the differential effects of marketing activities uniquely attributable to existence of the brand (e.g., Keller 1993; Sullivan 1998). To the extent that brand equity is strong and positive, brands can be valuable intangible resources enabling firms to build and protect market share, leverage communications expenditure, and more easily launch new products (e.g., Aaker 1991).

*Human resources* These refer to the people and knowledge and skills available in the firm's workforce that provide inputs to the firm's marketing capabilities (Lepak and Snell 1999; Wernerfelt 1984). This includes the breadth and depth of marketing personnel available (Moller and Anttila 1987) but may also include non-marketing personnel that provide inputs needed to define, develop, and deliver value to customers (Aufreiter et al. 1996). Human resources are in many ways one of the most critical inputs to a firm's marketing capabilities. For example, there is a large amount of evidence in the marketing literature concerning the role of the knowledge and skills of a firm's sales personnel in the firm's selling effectiveness (e.g., Kohli et al. 1998; Szymanski 1988).

*Organizational resources* These are the characteristics of the organization such as its scale and scope of operations. However, organizational resources also encompass the firm's formal and informal organizational systems (Day and Wensley 1988), communications systems (Moller and Anttila 1987), structure (Vorhies and Morgan 2003), and culture (Deshpande et al. 1993). All of these organizational resources may be important inputs to a firm's marketing

efforts, and many have been studied in the marketing literature. For example, organizational culture as a resource and its impact on marketing-related activities include conceptualizations of market orientation as a cultural phenomenon (e.g., Narver and Slater 1990) and studies of the impact of organizational culture on market information processing and product development outcomes (e.g., Moorman 1995; Moorman and Miner 1997).

*Financial resources* Financial resources concern the cash available for investment in the firm's marketing-related activities. From this perspective, marketers are clearly most concerned with the size and accessibility of the relevant "marketing budget" (Piercy 1987). Many marketing-related activities, however, may draw directly or indirectly on financial resources from outside a delineated marketing budget. For example, marketing training often draws on HR budgets and personnel. Clearly, access to needed financial resources is important in determining a firm's ability to successfully engage in marketing activities. This is supported by research linking the deployment of financial resources on marketing-related activities such as advertising and firm performance (e.g., McAlister et al. 2007; Mizik and Jacobson 2007).

*Informational resources* Information concerns data such as facts, axiomatic propositions, and symbols which can be transmitted without loss of integrity once the syntactical rules for deciphering it are known (Kogut and Zander 1992). Information has long been viewed as a key marketing asset (e.g., Glazer 1991; Jaworski and Kohli 1993). Most obviously, information about customers, channel members, and competitors are important inputs for marketing activities such as pricing, advertising, product development, and marketing planning (e.g., Day 1994; Morgan et al. 2009a, b).

*Relational resources* Firms are connected to many different entities with which they are involved in exchange relationships (Morgan and Hunt 1994). Each of these different types of relationship may constitute a resource that can be an input to marketing activities. For example, relationships with customers and channel members are clearly helpful in facilitating market research and selling activities (Srivastava et al. 1998). Relationships with suppliers can also be an asset that enables firms to better perform marketing-related activities such as new product development (e.g., Srivastava et al. 1999; Takeishi 2001). Even relationships between the firm and its employees can create a relational asset that may be an important input to marketing activities such as selling and implementing marketing strategies (e.g., Noble and Mokwa 1999; Podsakoff and MacKenzie 1994).

*Legal resources* These concern legislative-based instruments that provide protection for other types of firm resources including proprietary product and process technology and brand names and associated symbols (Collis 1995). Marketers have long recognized the utility of legal protection of firm resources such as trademarks and patents in providing barriers to competitive imitation, allowing investments in some resources to be recouped over the period offered by the legal instruments available (e.g., Cohen 1991; Givon et al. 1995).

#### Marketing capabilities

Capabilities develop when individuals and groups repeatedly apply their knowledge and skills to combine and transform resources in ways that contribute to achieving the firm's goals (e.g., Collis 1995; Mahoney and Pandian 1992). This occurs through multifaceted interactions between individuals, groups, and organizational systems, structures, and resources (Grant 1996a; Marino 1996). Capabilities therefore involve complex coordinated patterns of skills and knowledge that become embedded as organizational routines develop over time (Grewal and Slotegraaf 2007; Kale and Singh 2007). As a result, as with other types of capabilities, marketing capabilities occur at different levels within the firm ranging from the individual to the corporate level (e.g., Grant 1996a; Morgan and Slotegraaf 2011). At the lowest level within the firm, individual specialists apply their unique knowledge to solving the marketing-related problems facing the firm.<sup>1</sup> A given individual's marketing knowledge may also be combined with other specialists' knowledge within various functional work groups and cross-functional teams (Grant 1996b). As this integrating process proceeds throughout the organization and at multiple levels, a hierarchy of capabilities develops (Grant 1996a; Teece et al. 1997).

Thus, a firm's capabilities are an amalgam of lower-level knowledge-based processes (e.g., Galunic and Rodan 1998; Grant 1991). At the business unit and firm levels, four main types of such knowledge-based processes have been identified in the literature: *specialized*, *cross-functional*, *architectural*, and *dynamic capabilities*. At these organizational levels, marketing capabilities can therefore be defined as the specialized, architectural, cross-functional, and dynamic processes by which marketing resources are acquired, combined, and transformed into value offerings for target market(s) (e.g., Day 1994; Madhavan and Grover 1998). As the notion of marketing capabilities is relatively new to the marketing discipline, the constituent specialized,

architectural, cross-functional, and dynamic marketing capabilities have yet to be comprehensively identified and cataloged. However, a number of capabilities of each type have received attention in the extant marketing literature.

*Specialized marketing capabilities* Specialized marketing capabilities concern the specific functionally based processes used within the organization to combine and transform resources (e.g., Vorhies and Morgan 2005). While specialized capabilities may involve coordinating with other functions and draw on inputs from outside of the marketing area, the core of these capabilities resides in the marketing function. Specialized marketing capabilities have therefore typically been viewed as encompassing the tactical marketing program-related processes commonly needed to implement marketing strategy (Bonoma 1985; Vorhies and Morgan 2003). The literature suggests that specialized marketing capabilities are based around the classical "marketing mix" of activities concerned with product, pricing, communications, and distribution (Hunt and Morgan 1995; Vorhies et al. 2009). However, marketing research is also clearly a capability that fits within the conceptualization of a specialized marketing capability (Vorhies et al. 1999).

*Product management* This capability concerns the process of adapting, maintaining, and delivering product and service offerings to satisfy customer needs (e.g., Greenley and Oktengil 1997). Producing and delivering valuable and appealing product/service offerings requires well-developed organizational routines for evaluating product/service performance (e.g., Adler et al. 1996) and adapting existing product/service offerings to match changing customer requirements and competitive imperatives (e.g., Slater and Narver 1995). To be effective, product management efforts must focus attention on understanding the needs of customers within targeted segments (e.g., Dickson and Ginter 1987).

*Pricing management* Price is a key component of the value delivered to customers through market offerings (e.g., Dawar and Parker 1994). Price impacts both the cost and perceived quality sides of the customer value "equation," and the ability to manage pricing effectively is therefore an important marketing capability (e.g., Dutta et al. 2003). A firm with strong pricing capabilities is knowledgeable about price's impact on customer value perceptions (e.g., Shapiro et al. 1987; Davey et al. 1998) and about competitors' current and planned pricing strategies and actions (e.g., Blattberg and Wisniewski 1989). Such firms utilize this knowledge to develop appropriate pricing strategies and to quickly and effectively execute and communicate pricing changes when required (e.g., Irvin and Michaels 1989; Marn and Rosiello 1992).

<sup>1</sup> At the individual level, capabilities are usually referred to as "competencies" in the management literature.

*Channel management* Channel members perform significant value-added activities in relation to end-user customers in many marketplaces, typically adding between 15% and 40% of total value (e.g., Bucklin et al. 1996). The ability to efficiently and effectively manage relationships with channel members has therefore long been recognized as an important marketing capability (e.g., Weitz and Jap 1995). This has been associated with activities such as supporting channel member efforts and developing and maintaining mutually beneficial relationships (e.g., Anderson and Narus 1990). A wide variety of potential channel management-related capabilities exist and are reflective of the high levels of variation seen in organizations. For example, direct-to-customer companies are expected to develop only those channel capabilities that relate to order processing, shipping, return processing, and customer service. In contrast, those with channel intermediaries between the firm and end users need broader channel capabilities such as attracting new channel members, adding value to channel member businesses, etc.

*Marketing communication management* Communicating effectively with customers and prospects is an essential marketing capability associated with customer value delivery (e.g., McKee et al. 1992). The marketing literature suggests that such communications capabilities are built upon fundamental marketing activities such as advertising, social media participation, sponsorship, public relations, and corporate image management (e.g., Aaker 1996, 2008). Communicating the benefits of the firm's new products and services to potential customers, reminding current users of the product about product benefits and availability, and reinforcing the purchase decision to reduce cognitive dissonance are essential skills that firms must have in order to possess a strong marketing communications capability (e.g., McKee et al. 1992).

*Selling* Selling capabilities may be viewed as comprising two related elements. The first concerns the competencies of personnel engaged in selling activities (e.g., Brown et al. 1998). These relate to the basic nature of the selling task regarding analyzing customer needs, providing information, and working with current and potential customers to insure need satisfaction and development and management of relationships with customers. The second element concerns the systems and structures required to ensure efficient and effective management of the sales force (e.g., Challagalla and Shervani 1996). Key activities here include onboarding and ongoing training of sales personnel and sales managers; developing control systems such as call sales force management systems, performance tracking systems, and order tracking systems; and developing effective coordination with product/brand and market managers.

Both elements of a selling capability have been connected with firms' ability to deliver customer value and achieve superior performance (e.g., Shapiro et al. 1997).

*Market research* This concerns the firm's ability to provide answers to market-related questions set by its managers (e.g., Vorhies et al. 1999). A firm's market research capability therefore typically involves the ability to translate questions asked by managers into defined research briefs, design appropriate research plans, collect required data, analyze the data collected, and communicate the required answers to the original questions set (e.g., Moorman 1995). Market research capabilities have also been connected conceptually and empirically with firm performance in the marketing literature (e.g., Vorhies et al. 1999).

#### Cross-functional marketing capabilities

Cross-functional marketing capabilities are more complex and higher order than specialized capabilities since they involve integrating a number of different specialized capabilities. They typically draw together multiple specialized marketing capabilities of the kinds detailed above and combine these with inputs from specialized capabilities in other functions (e.g., Aaker 2008). While many of these capabilities may be included in academic conceptualizations of marketing, these may often not reside within a formally organized marketing organization within a firm (Srivastava et al. 1999). Three of the most important cross-functional marketing capabilities identified in the extant literature are: brand management, customer relationship management (CRM), and new product development (NPD).<sup>2</sup>

*Brand management capability* This concerns the systems and processes used to develop, grow, maintain, and leverage a firm's brand assets (e.g., Morgan et al. 2009a, b). As such, brand management involves drawing together numerous specialized marketing capabilities such as market research, product management, pricing, and marketing communications capabilities for specific brands (e.g., Aaker 1991; Andriopoulos and Gotsi 2000). It also combines these with inputs from R&D (e.g., innovation pipeline planning), accounting (e.g., sales volume and realized pricing data), production (e.g., product quality data and schedule planning), and operations (e.g., delivery lead-time performance monitoring) to develop and execute brand-level business plans (e.g., Aaker 2008).

<sup>2</sup> While supply chain management has also been identified as another relevant cross-functional capability, it is not considered here since this capability is almost never driven by marketing personnel in practice.

*CRM capability* This concerns the firm's ability to identify attractive customers and prospects, initiate and maintain relationships with these attractive customers, and leverage these relationships into customer-level profits (e.g., Boulding et al. 2005; Reinartz et al. 2004; Srivastava et al. 1999). A firm's CRM capability therefore comprises routines that allow for the co-ordination of multiple lower-level inputs such as sales reporting systems, market research reports, customer database analyses, customer service experience mapping, etc. (Morgan and Slotegraaf 2011; Ramaswami et al. 2009).

*New product development capability* This pertains to the firm's ability to create meaningful new value offerings for its target markets (e.g., Griffin and Page 1996; Ramaswami et al. 2009). This often involves acquiring market and technical knowledge from inside and outside the firm (e.g., Moorman and Miner 1997), integrating this knowledge to create new insights regarding value-creating offering possibilities (e.g., Sethi et al. 2001), and locating, acquiring, and deploying the complementary resources required to create, produce, and deliver the selected value offering (e.g., Madhavan and Grover 1998).

#### Architectural marketing capabilities

Architectural capabilities concern the processes used to select, integrate, and orchestrate multiple specialized and cross-functional capabilities and their associated resource inputs (e.g., Galunic and Rodan 1998; Henderson and Clark 1990).<sup>3</sup> Architectural marketing capabilities have therefore been viewed as encompassing the planning-related processes involved in selecting strategic marketing goals and formulating strategies to attain them (Morgan et al. 2003; Slotegraaf and Dickson 2004) and the implementation-related processes that facilitate the deployment of the multiple and inter-related resource inputs required to enact strategic marketing decisions (e.g., Capron and Hulland 1999; Vorhies and Morgan 2005).

*Strategic market planning* This architectural marketing capability concerns the firm's ability to conceive appropriate marketing strategies to leverage the resources and specialized and cross-functional capabilities available to the firm to build and maintain competitive advantage (e.g., Day and Wensley 1988; Day 1994; McKee et al. 1992). Activities such as market segmentation, customer and competitor analysis, internal company analysis, market targeting, and envisioning desirable value propositions are

important elements of this capability (e.g., Menon et al. 1999; Narver and Slater 1990).

*Marketing strategy implementation* Effective marketing strategy implementation requires the ability to acquire, combine, and deploy needed resources. This capability therefore encompasses processes such as those involving developing appropriate organizational designs (e.g., Olson et al. 2005), acquiring and allocating required resources from inside and outside the organization (e.g., Bonoma and Crittenden 1988), and monitoring internal and marketplace progress (e.g., Jaworski 1988) to enable intended marketing strategies to be quickly translated into consistent goal-directed action outcomes. Implementing marketing strategies typically requires coordinating a large number of different resources that must be combined and deployed in ways that are often time dependent (e.g., Bonoma 1985). The needed resources (e.g., budgets, people, technology) and lower-level capabilities (e.g., compensation system design, hiring and training needed personnel, product and service delivery, etc.) for a marketing strategy implementation capability are also frequently cross-functional (Morgan et al. 2003).

#### Dynamic marketing capabilities

Dynamic capabilities concern the firm's ability to engage in market-based learning and use the resulting insight to reconfigure the firm's resources and enhance its capabilities in ways that reflect the firm's dynamic market environment. Dynamic capabilities theory posits that in order to deliver sustained competitive advantage in dynamic environments, the firm's resources and capabilities need to be continually changed, developed, and enhanced (e.g., Lado et al. 1992; McGrath et al. 1995). The extent to which firms are able to encourage, organize, and tap individual, group, and organizational learning about the firm's current and potential markets determines the firm's ability to discover why and how its resources should be reconfigured and capabilities upgraded (Kogut and Zander 1992; Mahoney 1995). Because of the dynamic nature of markets, resources and capabilities that fail to evolve to fit the changing demands of the firm's markets create organizational rigidities (Leonard-Barton 1992). These rigidities prevent adaptation to environmental change and often lead to lower value outcomes (e.g., Hunt and Morgan 1995; Vorhies et al. 2010). Thus, DC theory suggests that it is essential that firms develop processes for resource reconfiguration and capability enhancement—guiding investments in new resources and capabilities, deciding which to release, and which to improve and how to do so (Argyres 1996).

Combining dynamic capabilities theory with relevant insights from the extant strategic marketing literature

<sup>3</sup> The term *architectural* is used to denote that these capabilities combine various other components—multiple resources and capabilities—into a cohesive whole.

therefore suggests that dynamic marketing capabilities may be conceived as having three major elements: market learning, resource reconfiguration, and capability enhancement. Each of these elements is discussed in turn.

*Market-learning capability* This reflects a firm's ability to actively and purposefully learn about customers, competitors, channel members, and the broader business environment in ways that not only allow a deep understanding of the current marketplace conditions but also permit future marketplace changes to be predicted. This is a step beyond previous conceptualizations of "market sensing" (e.g., Day 1994; Morgan et al. 2009a, b) which drew on "sense-and-respond" models. Rather, in increasingly complex and dynamic markets, firms need to more actively probe and experiment in order to be able to anticipate broader marketplace changes rather than more passively monitor the market and respond accordingly when changes occur (e.g., Day 2011). This capability therefore allows the firm to generate superior market knowledge, which is posited to be a pre-condition for any dynamic capability (Eisenhardt and Martin 2000; Grant 1996b). Since learning is the process of acquiring, processing, retrieving, and storing new knowledge (Fiol and Lyles 1985; Helleloid and Simonin 1992), this capability draws together and coordinates a number of resources and lower-level capabilities including: the firm's leadership team (e.g., Day 2011); formal market research activities such as market surveys, experiments, test marketing, customer database analyses, etc. (e.g., Moller and Anttila 1987); informal market scanning and intelligence generation (e.g., Kohli and Jaworski 1990); and research and intelligence exchange and interpretation (e.g., Slater and Narver 1995).

*Resource reconfiguration* This involves the firm's ability to retain, eliminate, and acquire resources in ways that fit with the requirements of the firm's environment (e.g., Galunic and Rodan 1998; Karim and Mitchell 2000). This can involve resource development internally or resource acquisition, either individually in the "strategic factor" marketplace (e.g., Barney 1986; Dierickx and Cool 1989) or collectively through acquiring or merging with another firm and redeploying its resources (e.g., Capron and Hulland 1999). Irrespective of whether new resources are built internally or acquired externally, or unneeded resources are sold or scrapped, what is most important is that the output of the firm's market learning capability that guides all resource reconfiguration decisions (e.g., Eisenhardt and Martin 2000). This is consistent with the extant marketing literature in much of the market orientation research stream (e.g., Slater and Narver 1995) and in work on competitive rationality (e.g., Dickson 1992).

*Capability enhancement* This reflects the firm's ability to retain, eliminate, acquire, and improve their capabilities in ways that are consistent with the requirements of the firm's environment (e.g., Eisenhardt and Martin 2000; Helfat 1997). While it is difficult to purchase and internalize individual capabilities from outside the firm (e.g., Barney 1986), new capabilities can be introduced by acquiring or merging with another firm and transferring "best practices" and skilled personnel (e.g., Capron and Hulland 1999). Firms are involved in such mergers and acquisitions relatively infrequently, however, and acquiring new capabilities in this manner can be costly and difficult (e.g., Barney 1999). New capabilities may be internally developed as individuals and groups within the firm combine their knowledge and experience with available resources to solving the firm's emerging problems (e.g., Grant 1996a; Kogut and Zander 1992). Perhaps the most common aspect of capability enhancement is the improvement of existing capabilities through organizational learning (e.g., Vorhies et al. 2010; Winter 2000). Capability improvement may involve the application of various forms of learning, including "learning by doing" such as using experience to improve product development capabilities by overcoming past problems and failures (e.g., Helfat and Raubitschek 2000; Henderson and Clark 1990) and "learning by imitation" such as using competitive benchmarks as a route to enhancing a particular capability (e.g., Day 1994). Both of these approaches are fundamentally "market-based" learning mechanisms, where improvements and enhancements to firm capabilities result from insight and experience gained as a result of delivering value to customers in competitive environments (e.g., Day 1994; Vorhies and Morgan 2005).

#### Marketing strategy

Successful organizations are distinguished not only by well conceived marketing strategies outlining where, when, and how the firm will compete but also by their ability to execute the marketing strategy decision options selected (e.g., Day and Wensley 1988; Varadarajan 2010). Appropriate and effectively executed marketing strategies are required to productively guide the deployment of available resources via the firm's marketing capabilities in pursuit of desired goals (Black and Boal 1994; Varadarajan and Clark 1994). The literature therefore suggests two distinct but related aspects to marketing strategy content: marketing strategy decisions and marketing strategy decision implementation.

#### Marketing strategy content decisions

Marketing strategy decision makers must select which available resources the firm should deploy, where to deploy them, and set and signal priorities in terms of achieving the



various goals of the firm (Slater 1995). These marketing strategies may be either formal, top-down strategies (Varadarajan and Clark 1994) or emergent or improvisational strategies (Moorman and Miner 1998). A firm's marketing strategy content therefore involves explicit or implicit decisions regarding goal setting, target market selection, positional advantage to be pursued, and timing (e.g., Day 1994; Varadarajan 2010).

*Strategic marketing objectives* Managers must make decisions about what the objectives and priorities of the firm are, translate these into marketing-related goal criteria, and set and articulate the desired achievement levels on each goal. This is complicated by the fact that many goal criteria and levels may be incompatible or at least non-complementary. For example, revenue growth and margin growth are difficult to achieve simultaneously (Morgan et al. 2009a, b). Managers therefore have to prioritize objectives that may be in conflict. Since most definitions of strategy concern plans for how desired objectives are to be achieved, such goal setting is clearly important in determining subsequent marketing strategy content decisions. Indeed such goal selection decisions may be one of the most important manifestations of strategic choice (Child 1972).

*Market selection* This concerns the segmentation and targeting decisions of the classic STP framework of marketing strategy. Specifically, this marketing strategy content decision determines where the firm will seek to compete in order to meet the strategic marketing objectives set. This usually involves specifying which customers or groups of customers are to be targeted, and the broad domain of the types of products and services the firm will offer to them. For example, “wealth management advice for individuals in the U.S. with a net worth of more than \$1m who do not want to direct their investments personally” may be an articulation of a financial service firm's market selection decision.

*Value proposition* This concerns the selection of the specific product and/or service offering(s) to be delivered into the target market (Slater 1995). This decision is therefore a determination of the value offering that managers consider will create sufficient demand at required price points among target customers to enable the firm to achieve its strategic marketing objectives. This assumes that the value proposition can be delivered by the firm as envisaged and that the delivered value proposition is perceived by customers in the way that decision makers anticipate. This marketing strategy content decision therefore determines which specific resources and capabilities are required to be combined and transformed to develop and deliver the value offering.

*Timing* An important marketing strategy decision when examining new market targets or value propositions is the timing of entry or launch (e.g., Green et al. 1995; Lieberman and Montgomery 1998). However, even if a marketing strategy does not involve such changes to target markets or value propositions, timing is still an important component of most marketing strategies. For example, most firms also have specific timeframes associated with their strategic marketing goals or regular planning horizons that provide time objectives and constraints within which marketing plans may be formulated and executed. Such time considerations can often impact other marketing strategy content decisions. For example, when a marketing strategy must be developed to deliver a return on investment in 2 years versus 3 years, then different targeting and value proposition decisions may be appropriate (e.g., Green et al. 1995).

#### *Marketing strategy decision implementation*

Implementation of marketing strategy involves deciding on the details of how intended marketing strategy decisions on goal selection, choice of market and customer targets, desired value proposition, and timing can best be realized through the selection of the most appropriate set of marketing tactics, and deploying resources in ways designed to enact this (e.g., Cespedes 1991; Day and Wensley 1988). Effective marketing strategy decision implementation therefore concerns both detailed tactical issues in terms of the design of an appropriate marketing program and resource and capability issues in enacting each of the specific marketing tactics selected (e.g., Cespedes 1991; Weitz and Wensley 1988).

*Marketing program alignment* This involves translating each marketing strategy content decision into specific action-oriented tactics covering the relevant aspects of the marketing program (Bonoma 1985; Cespedes 1991). Aligning marketing program design with planned marketing strategy content is often not a simple act of translation from a set of relatively abstract strategic decisions to more concrete and detailed marketing program actions. As there are usually alternative ways of operationalizing marketing strategy decisions through and across marketing program elements, and decisions about one marketing program element may affect choices concerning other marketing program elements, designing marketing programs requires strategic choices and often involves trade-offs, negotiation, and compromise (e.g., Bonoma 1985; Cespedes 1995). In addition, the importance of achieving meaningful differentiation in delivering desired value propositions means that translating marketing strategy content decisions into marketing program designs has increasingly been viewed as a creative rather than simply an analytic process (e.g.,

Andrews and Smith 1996; Moorman and Miner 1998; Sterling 2003).

*Resource deployment* This concerns the identification and deployment of the resources and capabilities necessary to enact the marketing program tactics detailed above (e.g., Crittenden and Crittenden 2008; Galbraith and Kazanjian 1986). Since marketing program activities typically cut across many different functional areas, and many different types of resources and capabilities may be required, the alignment of resources deployed with marketing program design requirements generally involves much more than simply telling “marketing personnel” what to do and allocating money from “marketing budgets” (e.g., Moorman and Rust 1999; Walker and Ruekert 1987). For example, the matrix organizational designs adopted by most consumer packaged goods organizations typically require managers executing brand marketing plans to draw on resources (e.g., tacit knowledge, money, personnel, information, technology, plant and equipment) and capabilities from centralized marketing services (e.g., consumer insights, package design, marketing communications support), R&D (e.g., innovation project planning and support), legal (e.g., establishing and maintaining trademark and patent protection), external vendors (e.g., advertising and promotion agencies), decentralized merchandizing organizations (e.g., designing and deploying displays and shelf-sets), a customer business (sales) team (e.g., pricing, promotion scheduling, category management), plant management (production planning and scheduling), and the distribution organization (e.g., delivery scheduling, direct-to-store execution).

#### Positional advantages

Positional advantages represent the relative (to alternatives available to customers) value actually delivered to target markets as a result of the firm’s marketing strategy decision implementation efforts, and the cost of accomplishing this to the firm (Day and Wensley 1988; Morgan et al. 2004). This is consistent with conceptualizations of “realized strategy” in the strategic management literature (e.g., Mintzberg and Waters 1985). Positional advantage has been viewed across a number of different value and cost dimensions. The dimensions of positional advantage most commonly discussed in the marketing literature and utilized in past empirical studies have included:

- *Product-based* positional advantages such as innovative product features, product quality, product/service convenience, and product packaging (e.g., Li and Calantone 1998; Morgan and Vorhies 2001). For example, Apple is widely viewed as having an advantage in making easy to

use and stylish computing and consumer electronic devices;

- *Service-based* positional advantages such as pre- and after-sales service and service quality (e.g., Bharadwaj et al. 1993; Morgan et al. 2004). For example, Zappos quickly built its U.S. internet shoe retailing business on its renowned service ethos and execution while in the hotel business Mandarin Oriental has established a strong reputation for its service quality across Asia;
- *Price-based* positional advantages such as low product or service offering prices (e.g., Hauser 1988; Lichtenstein et al. 1993). In retailing, for example, Wal-Mart is seen as offering lower prices on groceries and general merchandise than its national rivals in the US, while Lidl and Aldi occupy this position in Germany and across much of Europe. Meanwhile, in the global auto industry, Tata has established itself as having the lowest price position in India and Hyundai has established a price advantage in the U.S. and many of the other developed markets it serves;
- *Cost-based* positional advantages such as unit costs and cost of goods sold (e.g., Day and Wensley 1988; Hunt and Morgan 1995). For example, in the airline industry, Southwest has long been viewed as the U.S. cost-leader while Ryanair is renowned in Europe for its efforts to continuously lower its already very low airline operating costs. Meanwhile, in healthcare, India’s Aravind eye hospitals developed a radically lower cost model for cataract surgery;
- *Image-based* positional advantages such as brand image, quality reputation, and corporate image (e.g., Brown and Dacin 1997; Mizik and Jacobson 2008). For example, in the auto industry BMW’s position as the “ultimate driving machine” and Toyota’s reputation for reliability; and
- *Delivery-based* positional advantages such as product/service availability and accessibility, delivery lead-times, etc. (e.g., Bienstock et al. 1997; Mentzer et al. 2001). For example, Caterpillar’s global dealer network and spare parts inventory provide the company with an advantage in many of the global and industry markets in which it competes. Meanwhile in fashion retailing Zara is renowned for making the latest fashions available in its stores faster than its rivals.

Despite the positive framing of the term “advantage,” the conceptual scale for each of these dimensions of positional advantage runs from negative to positive. Thus, in practice a firm may have a disadvantage on some of the above dimensions, parity with rivals on other dimensions, and positive advantages of varying degrees on the remaining dimensions. Some of these major dimensions of positional advantage may also be related to one another. For example,

having a price advantage relative to rivals is unlikely to lead a firm to enjoy superior performance over time unless it is conjoined with parity or a positive advantage on the cost dimension of positional advantage. Similarly, superior product or service quality usually ultimately translates into superior performance on the image dimension of a firm's positional advantage. It is theoretically possible for a firm to have an advantage relative to rivals on all of the major dimensions of positional advantage. Practically, however, constrained capital and the focused strategic choices of rivals make this unlikely. Being disadvantaged on all dimensions of positional advantage simultaneously may also be an unsustainable position. This is a result of positional advantages being direct antecedents of firm performance because the relative superiority of a firm's value offering determines target customer buying behavior (e.g., Anderson et al. 1994; Narver and Slater 1990) and the economic outcomes of this behavior for the firm (e.g., Day and Wensley 1988; Morgan et al. 2004).

### Competitors

Before, during, and after any actions taken by the firm in deploying its resources through its marketing capabilities in order to realize intended marketing strategy decisions, competitors operating in the same marketplace are doing likewise in an effort to build and sustain their own positional advantages (Montgomery et al. 2005). These competitor actions and their realized positional advantages will affect the customer's perceived value of the outcomes of the firm's realized marketing strategy decision outcomes (for good or ill) and thus mediate the relationship between the firm's marketing strategy decision implementation, the positional advantages that result, and the performance outcomes of the positional advantages that the firm does achieve. The strategic management and marketing literature suggest three particular elements of the competitive landscape that may be particularly important in understanding marketing and its connection to business performance.

*Rivalry* A fundamental premise in SCP theory is that structural forces in an industry determine the degree of competitive rivalry faced in a market, which in turn has a strong impact on firm performance (McGahan and Porter 1997). This is a result of strong rivalry providing customers with greater choice (e.g., Day and Wensley 1988) and also because competitive intensity ultimately leads to price competition, which reduces the profits earned by all suppliers to a market (Porter 1980). To the extent that rivalry is present, it is likely to mediate the positional advantages that accrue to the firm as a result of its marketing strategy decision implementation. SCP theory suggests that this is particularly likely in the price

dimension of positional advantage achieved. The level of rivalry may also mediate the relationship between the firm's positional advantage and the firm's market and financial performance outcomes by affecting the firm's relative costs.

*Realized strategy* In formulating marketing strategy, decision makers may use competitor analyses to predict rivals' likely future marketing strategies and combine this insight with other aspects of their market knowledge to help in selecting appropriate marketing strategy decisions. However, since perfect competitor foresight is impossible, even firms with high levels of market knowledge and strong strategic market planning capabilities may face "surprises" in competitors' independent marketing strategy moves (Slater and Narver 1995; Slotegraaf and Dickson 2004). Thus, the realized marketing strategies of rivals in a marketplace will impact the extent to which the firm's marketing strategy decision implementation efforts translate into positional advantage in the target marketplace.

*Response* While there is some evidence that "no response" by competitors is a common reaction to a firm's marketing strategy moves (e.g., Leeflang and Wittink 1996), there is also evidence that when and how rivals respond can be explained by a number of different factors including rival characteristics, marketing strategy change characteristics, and focal firm characteristics (e.g., Bowman and Gatignon 1995; Chen et al. 1992). RBV theory posits that if one or more rivals respond to a firm's marketing strategy moves in ways that either imitate them or deliver an equivalent value proposition, this will reduce the firm's ability to achieve or sustain a positional advantage via its marketing strategy implementation and may also diminish the performance value of any positional advantage achieved (Barney 1991; Conner 1991; Dierickx and Cool 1989). Thus, the speed and nature of rivals' marketing strategy responses to the firm's realized marketing strategy will moderate the firm's success in translating its marketing strategy decision implementation into positional advantages and the sustainability of any positional advantage achieved (e.g., Morgan et al. 2004).

### Isolating mechanisms

An important concept in RBV theory explanations of firm performance is the existence of isolating mechanisms—factors that make it difficult for rivals to compete away a firm's positional advantage (e.g., Lippman and Rumelt 1982). While positional advantages represent the short-term relative value delivered to target customers, from a dynamic perspective the key issue is the sustainability of any positional advantages achieved (e.g., Day and Wensley 1988). RBV theory posits that for positional advantages to

be sustained over time, they must be a result of value-creating strategies for which the needed resources and capabilities are inimitable (e.g., Lippman and Rumelt 1982) and non-substitutable (e.g., Collis 1995). From this perspective, the ability of competitors to imitate a particular value-creating strategy is a function of their having or being able to access the resources and capabilities that allow a firm to conceive of and execute that strategy (Collis 1995). Similarly, for resources and capabilities to be non-substitutable there must be no strategic equivalent that can take their place when implementing the firm's strategy (Barney 1991; Dierickx and Cool 1989). Thus, the effect of isolating mechanisms is to reduce the ability of rivals to diminish the positional advantages achieved as a result of the firm's marketing strategy implementation, and to erode the sustainability of any positional advantage that is achieved by the firm and thereby lower the resulting performance benefits.

Isolating mechanisms identified in the strategic management literature include: causal ambiguity (Barney 1991), path dependence (Teece et al. 1997), asset interconnectedness (Dierickx and Cool 1989), and resource and capability immobility (Reed and Defillipi 1990). These isolating mechanisms create barriers to imitation in terms of: physical infeasibility, in that no other firm can replicate the best "Main Street" retail location, duplicate the highest yielding ore-mine, or sign the best athletes to long-term endorsement contracts (Collis and Montgomery 1995); legal infeasibility, in that intellectual property rights deny access to protected technology, designs and processes (Teece et al. 1997); temporal infeasibility, in that a firm's resources and capabilities could be copied by rivals, but to do so would take a long time (Reed and Defillipi 1990; Williams 1992); and cost/benefit disadvantages due to time-compression and asset erosion costs and first-mover advantages (Barney 1991; Dierickx and Cool 1989).

#### Performance outcomes

Realized positional advantages capturing how the firm's value offering is viewed by target customers and the cost to the firm of achieving this position are the immediate pre-cursor to a firm's business performance (Day 1994; Day and Wensley 1988). Researchers and managers are fundamentally interested in two different aspects of business performance: product-market performance and financial performance.

*Product-market performance* Product-market performance concerns the purchase behavior responses of customers and prospects in the target market to the firm's realized positional advantage (Morgan et al. 2002). By creating a positional advantage relative to available alternatives, a firm's value offering will be more positively perceived by

customers. In turn, these improved perceptions alter customers' buying behavior in a way that is favorable for the firm (Narver and Slater 1990). All else being equal, this enhances product-market performance in ways that may be captured in indicators such as: greater sales volume, increased customer satisfaction and behavioral loyalty, lower price sensitivity, and growth in the firm's market share. Alternatively, a firm with a realized cost advantage may choose to deliver an equivalent value offering and seek to maintain existing perceptions and buying behavior patterns among target customers while enjoying a greater margin at the same selling price as competitors.

*Financial performance* While it should not be assumed that superior financial performance is the ultimate goal of all management and investor activity in business organizations, it is clearly a central aspect of business performance. From a financial performance perspective, organizational success is typically defined and measured in terms of accounting indicators of cash flows and profitability, and financial market indicators of investor value (Srivastava et al. 1999). In accounting terms, cash flows are different from profits in that accounting measures of profits depend on the firm's policies with regard to recognizing revenue and allocating costs, while cash flows are the sum of the inflows and outflows of cash from the firm. The efficiency with which the firm generates cash flows and profits may also be an important accounting indicator of financial performance. This is typically captured in "Return on..." type measures that express profit and cash flow as a ratio of some measure of the capital employed or sales revenue of the firm. From a financial market perspective, investors (stockholders and debtholders) will then value the firm's stock and debt based on the net present value of the firm's assets and expected future cash flow—which is a function of current cash flow levels, expectations of future cash flow growth, and the likely risk to the firm's cash flows. This is typically captured in financial market-related metrics such as stock and bond prices, total shareholder returns, stock beta, credit ratings, and unsystematic risk (e.g., Morgan and Rego 2006; Rego et al. 2009).

#### Learning and re-investment

The prior variables and relationships in the model are conceptualized as a process model of marketing and business performance. There are two key resources generated by this process: (1) money for re-investment in the firm's stock of resources and capabilities and (2) enhanced knowledge of the firm's resources and capabilities, marketing strategy, and the marketplace. In order to sustain superior performance over time, these two outcomes should be connected. As outlined in the earlier discussion of dynamic marketing capabilities, the re-investment of profits

into upgrading the firm's resources and capabilities should be guided by the current and anticipated requirements of the firm's marketplace. By observing marketplace reactions to the firm's initial marketing strategy implementation efforts, and responses to any adjustments made to correct for implementation weaknesses observed or under-performance relative to strategic marketing goals, managers should develop an enhanced knowledge of the markets in which they operate. In addition, many marketing resources (excluding financial and some physical resources) and all marketing capabilities may benefit from use that promotes learning through repetition, which enables improvements (Day 1991; Grant 1991). Thus, the firm's marketing resources and capabilities may be enhanced simply by being used to conceive of and execute marketing strategies and experiencing resulting marketplace responses and performance outcomes.

### Discussion and implications

The conceptual model developed and elaborated here is not meant to be exhaustive in detailing all of the variables that may be important in linking marketing with business performance. Given the levels of specificity of many academic studies in marketing, this would be logistically as well as cognitively challenging. Nonetheless, the model does capture the major categories of variables that have been identified as important in explaining variance in firm performance in the strategic management literature. As such, the model has some important implications for marketing research and pedagogy as well as for management practice.

For researchers, the conceptual framework provides a theoretically anchored picture of what an overall business performance process may look like from a marketing perspective. As such, one valuable use of the model may be in providing a visual depiction of where the variables a researcher wishes to study may be located relative to other aspects of the marketing–business performance process. This may be helpful in terms of identifying adjacent categories of variables for use as dependent variables or in identifying the types of control variables that will allow greater precision in isolating the effects of the variables of primary interest.

Perhaps more importantly, however, the model provides a platform in which existing empirical findings across numerous and disparate marketing studies may be integrated. Without such integration, our ability to build a coherent knowledge base about how marketing is linked with business performance will be limited. No single study can ever empirically examine the number of variables and range of relationships suggested in the framework. Knowledge of how marketing is related to

firms' business performance therefore has to be built sequentially across many different studies over time. However, doing so is impossible without a central organizing framework that allows the results of different studies to be integrated in a coherent manner.

In addition to allowing for greater integration of the knowledge generated in prior studies, comparing the existing literature in marketing with the variables and relationships in the framework may also be useful in identifying areas that should be priorities for future research. In this regard, (at least) four areas are clearly identified as requiring greater research focus. First, past research has focused on a relatively small number of marketing-related resources and capabilities. For example, recent work on the marketing–finance interface has greatly enhanced knowledge linking the reputational (e.g., brands) and relational (e.g., customer satisfaction) resources of the firm with accounting and financial market indicators of firm performance. However, we know much less about other types of marketing resources such as human and financial resources. Is this because they are much less important or just because they have not yet received adequate empirical attention? Similarly, while marketing capabilities have received greater attention more recently, most work in this area focuses on a firm's overall marketing capabilities and fails to identify the specific capabilities that make up the overall capability. Thus, we have relatively little empirical insight into many specific marketing capabilities, including some that are central to the practice of marketing, such as channel management, marketing communications, market research, and brand management.

Second, while market learning has been much discussed in theorizing about linkages between marketing and business performance, much less attention has been paid to how the resulting market knowledge and insight can be used to reconfigure the firm's resources and enhance its capabilities in ways that match the evolving dynamic requirements of the firm's marketplaces (e.g., Vorhies et al. 2010). How is this best accomplished in practice? How can firms best balance the need for stability and efficiency in their operations with the need for continuous change and improvements in their resources and capabilities? Even more importantly, theoretically it is likely that the firm's ability to "learn how to learn" is the most fundamental source of sustainable competitive advantage and superior firm performance over time (e.g., Dickson 1992; Vorhies and Morgan 2005). Yet we still know very little about this "meta-capability" from a marketing perspective.

Third, much of the conceptual work on marketing strategy recognizes that intended marketing strategies are frequently not realized in the ways envisaged by marketing strategy content decision makers (e.g., Varadarajan 2010). Yet this is often not reflected in empirical work that

includes consideration of marketing strategy content. Much of the extant empirical marketing strategy research typically either assumes that intended marketing strategy content decisions are subsequently realized or measures realized rather than intended strategy. Worse, we have very little empirical insight into why intended marketing strategy content decisions are often so difficult to realize in practice.

Fourth, the literature reveals a relatively larger number of studies examining links between various positional advantages (e.g., new products, perceived quality, channel penetration, relative price position) and firm performance. However, relatively few studies incorporate considerations of rivalry, competitors' strategies, and competitive response. This significantly limits our understanding of the dynamic nature of the relationship between marketing and firm performance. It also leaves largely unanswered questions regarding the relative sustainability of different types of positional advantage under different conditions. Meanwhile, from a performance perspective, we know little about marketing's impact on firm risk relative to other aspects of performance as this has only recently become a focus of attention in empirical research. In addition, the volatility-related conceptualizations of risk from finance that have been used to date provide no insights into the "probability of loss" conceptualizations of risk used by most managers.

For marketing pedagogy, the conceptual model may provide a useful organizing framework to help guide marketing curriculum planning and offers an architectural skeleton for students to see why various topics, variables, and relationships are being covered in a course and how they are connected to other topics, variables, and relationships that have already been taught. I have used various iterations of this framework as the overarching model of my marketing strategy classes over the past 15 years or so—and my students can generally all remember the basic layout and logic (if not every single variable) of what I have laughingly called my "model of life, the universe, and everything."<sup>4</sup> Thus, the framework can be useful in explaining to students *why* various variables and relationships are important to study as well as *what* variables and relationships are important in understanding how marketing is linked with business performance.

For managers, the model has important implications for how they should think about developing and executing marketing strategy. Not least, the framework provides a rationale for why managers should focus on internal as well

as external analysis in formulating their marketing strategies. Unfortunately, from a practical standpoint the marketing strategy toolkit available to most managers is still heavily tilted toward tools for external analysis of customers and competitors. The availability of such externally oriented tools is not a bad thing but clearly needs to be balanced with the development of new tools and frameworks for internal analysis if managers are to be able to maximize their ability to use marketing strategy to drive business performance. As a starting point, using self-assessment survey tools asking managers to calibrate their firm's marketing resources and capabilities is one avenue that has been fruitful.

In working with managers to develop marketing strategy, the framework also provides a useful checklist that ensures that all of the most relevant bases are considered in thinking about strategy options and their selection. For example, absent such framework-based provocation it is remarkable how infrequently managers consider competitor analysis at the level of strategic competitive reasoning—considering how rivals may react to the main marketing strategy decision options being considered.

## Conclusion

Developing a comprehensive understanding of how marketing is linked with business performance is critical for both marketing academics and managers. Since no single empirical study can ever capture the range of variables and relationships important in linking marketing with business performance, the discipline is in need of a comprehensive framework that will allow the findings from multiple studies to be integrated over time in a cumulative manner. The model explicated here integrates insights from the SCP, RBV, and DC schools of thought from strategic management theory with the theoretical and empirical marketing strategy literature in an effort to provide such a comprehensive framework. Now if we can just persuade marketing strategy researchers to systematically report sample sizes and standardized coefficients in all of their studies....

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<sup>4</sup> While *The Hitchhiker's Guide to the Galaxy* readers may know that the answer to this question is 42, I have been unable to reduce the number of variables needed in the model to this number. This may be taken as an indication that linking marketing with business performance is more complex than finding the answer to the question of life, the universe, and everything.

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