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Market-based capabilities, perceived quality and firm performance

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Document Version

Publisher's PDF, also known as Version of record

Publication date:

2006

[Link to publication in University of Groningen/UMCG research database](#)

Citation for published version (APA):

Aakouk, M. (2006). *Market-based capabilities, perceived quality and firm performance*. [Thesis fully internal (DIV), University of Groningen]. s.n.

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Chapter 1

INTRODUCTION

“As the economy changes, theories
and measures must change, too.”

Fornell et al. (1996)

1.1 Introduction

The historical roots of the marketing concept are traceable to the early 1950s (Drucker, 1954). However, the field of strategic marketing did not begin to bloom until late 1980s and begin 1990s. In this period various scholars begin to develop a better and more precise understanding of the marketing concept, its antecedents and consequences (Kohli and Jaworski, 1990; Narver and Slater, 1990). Some even suggest that the intellectual foundation for today’s strategic marketing starts early 1980s with the writings of Day and Wensley (1983, 1988). During the late 1990s and early 2000s, various critics begin to rebel at the widespread use of present conceptualizations of market orientation.¹ In this thesis, we argue that the present market orientation conceptualizations are becoming outdated (after more than 15 years). We use hereby Weiner’s (2000, p. 382) philosophical words, that a marketing:

“theory, like a cat or a dog, has a life of about 10-12 years, which is the equivalent of around 70-84 years of human existence. Longevity in part depends on the size of the pet (the bigger the theory, the earlier the demise), its level of activity, breed, and so on. At around the age of 10, the theory begins to weaken, does not see things too well, and is unable to adapt to the new circumstances and to the many obstacles in life. It can remember and account for the distant past better than recent events, and it acts with rigidity.”

The diminishing attractiveness of the present conceptualizations of the marketing concept lead some researchers to look for or move off into new directions, such as (1) the market-based capabilities perspective, where market orientation only represents one of the components (Day, 1994), and (2) the strategic orientation construct, where market orientation is also incorporated as a dimension (Gatignon and Xuereb, 1997). The first perspective deals with the classification of market-based capabilities, which suggests a balanced perspective of inside-out and outside-in capabilities (e.g., Day 1994; Mizik and Jacobson 2003; Noble, Sinha and Kumar 2002; Slack and Lewis 2003; Srivastava, Fahey and Christensen 2001; Vargo and Lusch 2004; Zwart and Postma, 1998). Although a number of classifications exists, these models

¹Especially the Nordic Schools (i.e., Gummesson and Grönroos) go rather far in their criticism.

largely incorporate market-driven, relationship-driven and supply-chain capabilities as relevant market-based resources. Another perspective that gains popularity in recent years is the strategic orientation model. The strategic orientation direction incorporates variables like customer orientation, competitor orientation, technology orientation and relational orientation. This perspective integrates the classical strategic management literature with that of market orientation.

Although we do not claim that the classical market orientation movement begins to fully lose its early enthusiasm, energy and adherents, we believe it is a good time to explore, synthesize, integrate and extend the previously mentioned directions. By doing so, we also provide evidence whether firms with (several) strong marketing capabilities are in a better position to satisfy the needs of their customers and shareholders. To investigate the propositions we use a dyadic approach, data generated from both customers of wholesalers and suppliers/wholesalers. Furthermore, we investigate, using several statistical methods, the effectiveness of attempting to develop several marketing capabilities simultaneously.

In short, the primary purpose of this study is theory building, extension of previous research in the field of market orientation and applying several recently proposed statistical methods to further explore the developed frameworks. However, this study is not only useful from the point of view of advancement of science in marketing, but also from the point of view of advancing managerial decision making. The results derived from the developed models and proposed methods form an essential piece of information to improve marketing decisions. This enables (top) managers faced with the problem of how to trade off competing strategic marketing initiatives to further optimize their decision-making process.

1.2 General Framework

In this dissertation, we focus on models related to the marketing concept and further synthesize and extend the literature (in this field) by developing two alternative integrated models of marketing: (1) the market-based capabilities construct, and (2) the strategic marketing capabilities model. These models extend the traditional models by incorporating several marketing resources and provide evidence for the effectiveness of attempting to develop and leverage several (market-based) capabilities simultaneously. We also extend the business-to-business quality literature by developing a quality model which we call WholeSaleQual for assessing customer perceptions of quality in a wholesale environment. Also, linking the market orientation and relationship marketing literature with the services operations management perspective, we extend the ‘service-profit chain’ framework. In this extended framework, we model the relationship between organizational service capabilities and profitability as a chain of effects. This enables us to fully capture the effect of services marketing capabilities on business performance. In doing so, we use a dyadic approach. We examine marketing resources and business financial performance using managers’ reports of firm performance. The market performance data are collected from customers. Linking marketing capabilities to customer responses

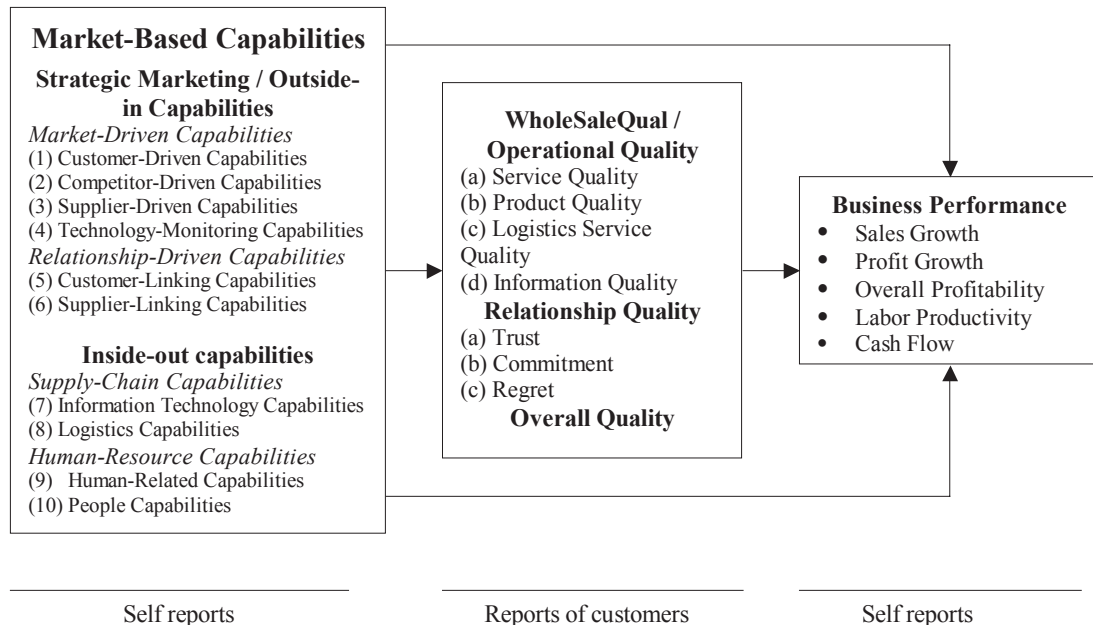


Figure 1.1: General Framework

is essential since marketing comprises a firms’ “willingness to recognize and understand the consumers needs and wants, and the willingness to satisfy those needs and wants” (Houston 1986, p. 86). The theoretical model in Figure 1.1 summarizes the studies presented in this dissertation.

1.2.1 Market-Based Capabilities

Chapter 2 and 3 in this dissertation develop a synthesized model of market-based capabilities by integrating the strengths of various studies classifying market-based capabilities. We develop a classification and measurement scales for market-based business capabilities from the configurational-based view. This construct represents a higher-order model with four second-order factors: (1) market-driven, (2) relationship-driven, (3) supply-chain, and (4) human-related capabilities, and is shown in the first block of the framework (Figure 1.1). To a large extent, Day (Day 1994; Day and Wensley 1998), Hunt (Hunt 2000; Hunt and Morgan 1995) and Srivastava and colleagues (Srivastava et al. 1998, 1999; Srivastava et al. 2001) have conceptually developed this view. We combine the outside-in and inside-out perspective, thereby proposing that a market orientation cannot exist when there is no alignment between market-driven capabilities and other relevant capabilities (e.g., Srivastava, Shervani and Fahey 1999). Furthermore, we relate these capabilities to business performance to investigate the relevance of these capabilities to a firm.

1.2.2 Strategic Marketing Capabilities

Chapter 4 proposes a new conceptualization of strategic orientation by developing a multidimensional model, which we call strategic marketing capabilities (see the upper part of the first block in figure 1.1), integrating both the classical market orientation and relationship marketing perspectives. In developing this model we largely build on Day's (1994) and Lusch and Laczniak's (1987) seminal work. In this model, we distinguish six higher-order factors: (1) customer-driven, (2) competitor-driven, (3) supplier-driven, (4) technology-monitoring, (5) customer-relating and (6) supplier-relating capabilities.² Chapter 5 investigates whether organizations excel when they understand and respond to their markets more effectively than their rivals do. Chapter 7 determines the impact of strategic marketing capabilities on various dimensions of quality, as perceived by customers. Before determining this relationship, we first develop and validate in paper 6 a so-called WholeSaleQual model for assessing customer perceptions of quality in a wholesale environment. This model incorporates service quality, product quality, logistics service quality and information quality as dimensions (see the upper part of the second block, figure 1.1).

1.2.3 Marketing Capabilities, Perceived Quality and Business Performance

In the final Chapter, we investigate and extend the classical service-profit chain framework (Heskett et al., 1994). The links presented in this chapter cannot be derived very easily from Figure 1.1. To give a general overview, we model the relationship between organizational service capabilities and profitability as a chain of effects. First, the organizational service capabilities influence employee service capabilities. Second, improved employee service capabilities result in positive internal service outcomes (employee satisfaction and value). In turn, internal service outcomes affect service relationships. Fourth, service relationships lead to external service outcomes (service quality). Finally, the increased external service outcomes result in greater profitability.

1.3 Methodology

This study is designed to evaluate the market-based capabilities of business-to-business firms. To effectively investigate the relationships postulated in this study, we choose a single-industry setting. This approach enables us to consider different strategic capabilities and their consequences in the same competitive environment, which allows us to better interpret the findings. Furthermore, our dyadic approach requires the collection of data from business-to-business companies and their customers. As mentioned earlier, we choose for the wholesaling sector.

²We use the terms 'linking' and 'relating' interchangeably in this dissertation.

1.3.1 Wholesaling

Wholesaling refers to establishments that do not sell products to a significant degree to ultimate household consumers but sell products primarily to other businesses, such as retailers, merchants, industrial users and commercial users (Coughlan, Anderson, Stern and El-Ansary, 2000, p. 475-476). The purpose is to adjust supply to demand on the basis of time, quantity and quality. We select the electrotechnical wholesale industry as our research setting mainly for the following three reasons: (1) there is little research investigating wholesaling, especially in the quality literature, (2) it is a major industry in the Western Economy, and (3) there is a realistic chance of elimination when this industry does not add value for customers.

Little Research Little research has been conducted in analyzing the wholesale industry (Lusch and Brown, 1996; van Dalen, Koerts and Thurik, 1990; Riemers, 1999). For example, Lusch and Brown (1996) point out that “channels research has concentrated on manufacturer-retailers and franchisors-franchisee linkages, virtually ignoring the wholesaler’s role” (p. 26). The same authors argue that relatively little is known about these channel members from both an economic and behavioral perspective.

A Major Industry The (electrotechnical) wholesale is a major industry in the Western Economy (Van Ark, Monnikhof and Mulder, 1999). This industry is both import- and export-oriented. It imports technical knowledge from abroad. Also, the electrotechnical wholesale industry belongs to the subcategory of ‘capital goods’, which has in many developed countries a high employment and a high number of companies as compared to other wholesale categories.

Chance of elimination Several marketing researchers point out that the wholesaling function will be eliminated if the activities are not performed more efficiently than others in the supply channel (Rosenbloom, 2001; Rosenbloom and Warshaw, 1995). Lusch and Brown (1996) state that “because of unexpected changes, in both supply and demand, the wholesalers, which serve as a buffer between manufacturers and retailers and/or end users, must be flexible and adaptive to changing circumstances” (p. 24). Furthermore, the growing numbers of specialized logistics-oriented companies which further develop and innovate the distribution function (carried out by the wholesaler) and the direct link between manufacturers and retailers, made possible due to information technology, may threaten the position of the electrotechnical wholesale industry.

1.3.2 The Sample

We started with exploratory research to obtain information about the electrotechnical wholesaling market and interviewed some managers. Next, a two-stage plan was used to obtain independent sets of dyads. The first stage involves using the official records of the Dutch Chamber of Commercies database to select potential customers of electrotechnical wholesalers. We sent 2921 questionnaires to the customers of electrotechnical wholesalers in the Netherlands, including a cover letter explaining the study goal and a stamped return envelope to the owner or manager

of each firm (Appendix A.2). Customers are asked to rate the degree to which they are satisfied with the offerings of one of their wholesalers and to give the name of this supplier. The mailing resulted in 490 responses, which is a response rate of 16.8%, and 178 names of different wholesalers (suppliers).

The second stage of the sampling plan involves a mailing survey to the wholesalers. The sampling frame is a list of 843 technical wholesalers in the Netherlands; additional names of electrotechnical wholesalers are taken from the official records of the Dutch Chamber of Commercences database. The method used is a survey among ‘key informant’ decision makers within electrotechnical wholesale companies. We presume that the manager or owner is the most knowledgeable person concerning market strategy, the firm’s relationships with both customers and suppliers, and the internal resources (HRM, Logistics, and Information Technology). We sent questionnaires to these wholesalers, including a cover letter explaining the study goal, and a stamped return envelope to the owner or manager of each firm (Appendix A.1). Of these 843 surveys, 137 were returned, a response rate of 16.3 percent. Of these received survey data, we could match sets of questionnaires from wholesalers and their customers suitable for dyadic analyses.

1.4 Outline of the Dissertation

This dissertation consists of seven chapters that are or will be submitted for publication. As outlined before, the chapters are divided into four sections, each part consisting of one or a number of papers: (1) market-based business capabilities, (2) strategic marketing capabilities, (3) WholeSaleQual construct, and (4) marketing capabilities, perceived quality and business performance.

1.4.1 Market-Based Business Capabilities

In Chapter 2, entitled “The Effect of Market-Based Business Capabilities on Business Performance: Extension of Theory and an Empirical Investigation,” we synthesize much of the unrelated discussions and analyze the impact of market-related resources on business performance. These resources include (1) market-driven, (2) relationship-driven, (3) supply chain, and (4) human resource capabilities. Furthermore, we develop and validate a measure of market-based capabilities.

Additional analyses using partial least squares regression are made in Chapter 3, entitled “A Detailed Investigation of the Market-Based Capabilities-Firm Performance Link: A Multivariate Partial Least Squares Regression Analysis.” This study extends previous work by simultaneously relating (highly correlated) dimensions of market-based capabilities to several indicators of firm performance using multivariate partial least squares regression.

As mentioned above, Chapter 2 develops the market-based capabilities model by incorporating elements from several literature streams within marketing. Our model adds to the market orientation literature by proposing a broader conceptualization of market orientation and by relating the components of this model to

business performance. Basically, Chapter 3 also relates market-based capabilities to business performance. Since Chapter 3 extends Chapter 2 in various areas it is useful to point out the relative contribution of Chapter 3. By applying partial least squares regression, Chapter 3 provides a more comprehensive analysis of the market-based capabilities construct. This enables us to investigate the contribution of the subdimensions of market-based business capabilities to various indicators of business performance. This, in turn, provides an opportunity to compare our study results with previously conducted and published research. Furthermore, this analysis enables us to better detect the marketing-related drivers of business performance. In short, this study extends the scope of market orientation studies, which have not addressed the general problem of comparing the impact of various market-based business capabilities on several indicators of business performance.

1.4.2 Strategic Marketing Capabilities

The fourth Chapter is entitled “The Strategic Marketing Capabilities Construct: An Integration of the Market-Driven and Relationship Marketing Perspectives.” In this chapter we develop a single model of strategic marketing capabilities that indicates a focus on the market (market orientation) and relationships (relationship marketing). This model incorporates six higher-order factors: (1) customer-driven, (2) competitor-driven, (3) supplier-driven, (4) technology-monitoring, (5) customer-relating and (6) supplier-relating capabilities. Utilizing a Bayesian confirmatory factor analysis, we investigate whether the hypothesized strategic marketing capabilities model is a good representation of the variance-covariance matrix. Validation tests, applying a recently proposed information criterion called deviance information criterion and Gelfand and Ghosh’s Criterion, using nested and nonnested competing models, are used to further investigate the relative strength of this model.

Chapters 2 and 4 develop two distinct, although related, frameworks. Table 1.1 shows some of the key features that differentiate the model developed in Chapter 4 from that of Chapter 2. As mentioned previously, the market-based business capabilities model incorporates elements from both the marketing and resource-based view literature, whereas the strategic marketing capabilities model primarily incorporates elements from literature streams within marketing (also known as the strategic orientation perspective). In Chapter 2, we determine the effect of various market-based capabilities on business performance, whereas Chapter 4 delivers a more detailed overview of the used statistical methods. Another important difference, besides the proposed (sub)dimensions, applied methods and statistical details, is the proposed factor structure.

In Chapter 5, entitled “The Effect of Strategic Marketing Capabilities on Firm Performance: A Bayesian Linear and Nonlinear Latent Variable Analysis,” we extend Chapter 4 by relating the strategic marketing capabilities to firm performance. Besides a linear effect, we also investigate a nonlinear relationship between the strategic marketing capabilities and firm performance. In doing so, we utilize a Bayesian approach to estimate the proposed linear and nonlinear latent variable models.

Chapter 7 extends Chapter 4 and is entitled “Strategic Marketing Capabilities and Perceived Quality: A Dyadic Approach.” This study investigates, in accordance with the marketing concept, the effect of strategic marketing capabilities on several indicators of market performance (i.e., operational quality, relationship quality and overall quality). Linking supplier responses to customer responses, we investigate the notion that firms are more likely to satisfy their customers when they possess superior strategic marketing capabilities.

1.4.3 WholeSaleQual

A model to assess quality in a wholesale setting is presented in Chapter 6. It is entitled “Development and Assessment of the WholeSaleQual Construct.” In developing this model, several constructs from the quality literature, which are largely investigated independently in past research, are integrated. The purpose of this paper is to (1) describe the development of a multiple-item multidimensional model for measuring quality in a wholesale setting, (2) compare this model to a multi-level quality model, and (3) investigate an operational level model, by estimating the relative importance of the developed operational dimensions (subdimensions of the WholeSaleQual construct), using partial least squares regression (PLSR). Our main thesis is that the PLSR method provides good estimates when implementing an operational level analysis where the presence of highly correlated operational dimensions is expected.

1.4.4 Marketing Capabilities, Perceived Quality and Business Performance

In Chapter 8, entitled “Revisiting the Service-Profit Chain Framework: Extension of Theory and an Empirical Assessment,” the service-profit chain framework is extended and put to a test. In this extended framework we propose the following service-profit chain: organizational service capabilities → employee service capabilities → internal service outcomes → service relationships management → external service outcomes → financial performance. To estimate this model, dyadic data are used. Furthermore, since mediation plays a central role, we both apply classical and bootstrap methods to determine the strength of mediation.

1.5 Contributions

With this research, we contribute to emerging literature, which can be classified as ‘market-driven management,’ ‘customer-based marketing’ and ‘customer relationship management,’ as follows. First, we develop an integrated classification of market-based capabilities using concepts from strategic marketing, service management, human resource management, supply chain management and relationship marketing. Second, we investigate, using several methods and techniques, which market-based capabilities are particularly relevant for describing and explaining the

creation of sustainable competitive advantage. Third, we present an alternative model of market orientation, which we call strategic marketing capabilities. Furthermore, we investigate the relationship between strategic marketing capabilities and firm performance using latent variable models. Fourth, we apply a Bayesian approach to the proposed linear and nonlinear latent variable models to obtain correct estimates. Fifth, we describe and apply the Gelfand and Ghosh and Deviance Information Criterion to compare the two models (main effects and interaction effects model) under investigation. Sixth, we also identify how particular market-based capabilities contribute to generating and sustaining specific forms of customer value. The seventh contribution concerns the development of the WholeSaleQual construct. Furthermore, we provide an approach and method for translating customer feedback into managerial actions for improving market performance. This analysis enables managers in wholesaling to recognize the quality attributes that need to be improved to stimulate customer satisfaction. Another contribution is our explicit link between operational level analysis and PLSR as a method to implement this approach. Finally, we contribute to the marketing literature by extending the ‘service-profit chain’ framework by explicitly incorporating the service operations management and relationship marketing perspective into this model. In this extended framework, we model the relationship between organizational service capabilities and profitability as a chain of effects. To estimate this model, we apply bootstrap methods and use dyadic data obtained from the suppliers and their customers.