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## Industrial Marketing Management



# The power of marketing within the firm: Its contribution to business performance and the effect of power asymmetry

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## ABSTRACT

While marketing continues to gain prominence as an orientation within the firm, concerns remain about the contributions of the marketing subunit. Given the current limited and conflicting evidence on the issue, this study responds to calls for research on the link between a powerful marketing subunit and business performance. The study draws on the critical contingencies perspective on power, which was specifically developed to study power distribution among organizational subunits. The key objectives of the study are (1) to determine whether a powerful marketing department is beneficial to business performance, (2) to reconcile conflicting evidence pertaining to the marketing function's contribution to performance beyond that of a market orientation, and (3) to investigate the effect on business performance of power asymmetry between marketing and other functions. Employing data from senior managers in medium and large manufacturing firms, the study shows that a powerful marketing function is associated with improved business performance above and beyond the contribution of a market orientation. Power asymmetry between marketing and finance/accounting and between marketing and production has a negative effect on business performance while a power asymmetry between marketing and R&D shows a positive effect on business performance. Finally, a differentiation strategy attenuates the negative performance outcomes of power asymmetry between marketing and production.

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## 1. Introduction

A perceived lack of influence and accountability has been claimed to undermine the credibility of marketing within the firm, threatened its standing, and even its existence as a distinct capability within the firm (O'Sullivan & Abela, 2007; Rust et al., 2004). Marketing has already been declared either dead, irrelevant, or powerless (Schultz, 2005). The relevance of marketing activities is at stake and even marketing scholars have voiced concerns that the power of marketing subunits may be in decline (e.g., Day, 1992; Kotler, 2004; Kumar, 2004; Sheth & Sisodia, 2005; Varadarajan, 1992; Webster, Malter, & Ganesan, 2005). These concerns have led to numerous studies on the role of marketing within the firm (e.g., Homburg, Workman, & Krohmer, 1999; Moorman & Rust, 1999; Verhoef & Leeflang, 2009). But surprisingly, empirical evidence pertaining to a link between a powerful marketing subunit and business performance is still scarce, contradictory, and inconclusive. The first objective of this study is to respond to calls for further research on the link between marketing subunits and performance (e.g., Verhoef & Leeflang, 2009) by

investigating whether powerful marketing departments contribute to firm performance in business-to-business contexts.

These controversies have been exacerbated by the growth of marketing as an orientation and the diffusion of marketing responsibilities across functions (e.g., Moorman & Rust, 1999). There is conflicting evidence pertaining to whether marketing subunits are responsible for positive business outcomes above and beyond those generated by a market orientation. Verhoef and Leeflang (2009) suggest that an influential marketing department does not explain significant incremental variance in performance beyond the adoption of a market orientation. In contrast, Moorman and Rust's (1999) findings suggest that marketing departments contribute to business performance, customer relationship performance, and new product performance beyond the contribution of a market orientation. Not only are these results conflicting, but the most important evidence of a link between marketing subunits and performance (Moorman & Rust, 1999) is now more than a decade old. Therefore, the second key objective of this study is to determine whether the marketing function contributes to a firm's performance above and beyond the contribution made by a market orientation in an industrial marketing context.

While there might be strong theoretical and practical reasons why organizations should increase the power of marketing subunits, the question remains as to what happens when marketing has very low or very high power relative to the other functions. This begs the

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question as to what are the performance consequences of power asymmetry between marketing and other subunits. Marketing's interface with other business functions has attracted increasing attention in the marketing literature, with some studies focusing for example on the dyadic interface between marketing and sales (Homburg & Jensen, 2007a), R&D (Gupta, Raj, & Wilemon, 1986), and finance (de Ruyter & Wetzels, 2000). Only a few studies have considered several interfaces at once (Maltz & Kohli, 2000; Ruekert & Walker, 1987), but without focusing on the business performance outcomes or on power asymmetry among functions. Furthermore, because a business unit's strategy can affect the distribution of power among subunits and its consequences (Walker & Ruekert, 1987), power asymmetry may have different performance outcomes depending on strategy type. Hence, the third main objective of this study is to investigate the effect of power asymmetry between marketing and other functions on performance, and test whether it varies depending on the strategy adopted by the firm.

We begin by reviewing the relevant literature: first, power theory, which underlines our model; second, the literature on marketing's role within the firm. Next, we present our model and research hypotheses, followed by the methodology and results. The paper concludes with a discussion of our key findings, implications for marketing research and practice, and suggestions for future research.

## 2. Theoretical background

### 2.1. The power of marketing

There are numerous different perspectives and formal theories on power (Bacharach & Lawler, 1980; Cartwright, 1959; Lukes, 1975; Thibaut & Kelley, 1959), and the concept of power has been studied in a wide range of domains, ranging from organizational change (Hardy, 1994) to social group dynamics (Cartwright & Zander, 1968) and planning (Forester, 1989). It has been argued that due to theoretical fragmentation and lack of convergence, the application in marketing of the concept of power has been rather slow and limited (Deshpandé & Webster, 1989; Merlo, Whitwell, & Lukas, 2004). In fact, the use of power theory in marketing has been restricted primarily to four areas: (1) distribution channels (e.g., Butaney & Wortzel, 1988), (2) organizational buying (e.g., Kohli, 1989), (3) consumer behavior (e.g., Bearden & Etzel, 1982), and to a lesser extent, (4) the influence of marketing departments and marketing people (e.g., Cespedes, 1995; Deshpandé & Webster, 1989; Piercy, 1989). Fundamentally, power may be defined as the capacity of an actor to get another actor to do something that the latter would not otherwise do (Dahl, 1957). Most characterizations of power, including those in the marketing literature, are reasonably consistent with this definition (see Bacharach & Lawler, 1980; Gaski, 1984; Lucas & Gresham, 1985). In this paper we are interested in the power of the marketing function as perceived by senior management.

In a review of the main schools of thought in power and their potential usefulness in marketing research, Merlo et al. (2004) identify four dominant schools of thought on power: the bureaucratic perspective (e.g., French & Raven, 1959), the critical contingencies perspective (Hinings et al., 1974; Salancik & Pfeffer, 1974), the network perspective (e.g., Tichy, Tushman, & Fombrun, 1979) and the psychological perspective (e.g., Crozier, 1964; Kipnis & Schmidt, 1988). Each perspective can be useful to study different marketing phenomena, but Merlo et al. (2004) argue that the critical contingencies approach displays the highest degree of suitability to the study of power distribution within the firm, and specifically, the power of the marketing function. This view is also expressed by Piercy (1989, p.102) who finds the critical contingencies approach a "useful lever to make sense of power differences between marketing and other sub-units". Also consistent with this view is a recent study by Nath and Mahajan (2011) that employs the critical contingencies view on

power to study the influence of Chief Marketing Officers within organizations. Our study adheres to this research stream in two significant ways: first, we adopt a macro perspective of power, by focusing on power as potential influence, as opposed to a micro perspective, which is concerned with manifest influence (Brass & Burkhardt, 1993; Gaski, 1984). The benefit of such an approach is that it is applicable over a wide range of decisions and issues. Second, while we acknowledge the multiplicity of power theories that have been put forward, we draw distinctively on the critical contingencies theory of intraorganizational power (e.g. Hinings et al., 1974; Salancik & Pfeffer, 1974), which was born out of a specific desire to explain power distribution among subunits within organizations.

According to the critical contingencies theory, organizational tasks and resources are allocated among organizational actors because they have bounded rationality vis-à-vis firm complexity (Child, 1972; Cyert & March, 1963; Hickson et al., 1971; Pfeffer, 1981; Thompson, 1967). As an actor gains control over resources that are critical to the work of the other actors, dependency increases, giving one actor power over the other (Blau, 1964; Dahl, 1957; Emerson, 1962; Hickson et al., 1971; Pfeffer, 1981; Thibaut & Kelley, 1959). The theory posits that there are three key elements of power: (1) a function's ability to cope with uncertainty, (2) its substitutability, and (3) its centrality within the workflow of activities. Hickson et al. (1971) explain: "When organizations are conceived as interdepartmental systems, the division of labor becomes the ultimate source of intraorganizational power, and power is explained by variables that are elements of each subunit's task, its functioning, and its links with the activities of other subunits" (Hickson et al., 1971, p. 217). Hinings et al. (1974) and Salancik, Pfeffer, and Kelly (1978) were among the first to provide empirical support for the strategic contingencies explanation of power. Accordingly, formally stated, we define the power of marketing as the extent to which the marketing subunit is relied upon to cope with uncertainty, is non-substitutable, and holds a central location within the workflow of activities. Many different power scenarios are possible within organizations. The focus of this paper is on what happens when other organizational subunits become reliant on marketing as the provider of certainty, as a central subunit, and as a non-substitutable function.

It should be noted that the performance outcomes of power can also be explained by the resource based view (RBV) of the firm (Barney, 1991), in that power can be viewed in terms of the possession of valuable, rare, inimitable, and non-substitutable resources that explain heterogeneity in firm performance. However, while the RBV explains firm performance heterogeneity in terms of differences in inter-firm resource possession, the critical contingencies perspective illustrates firm performance based on distribution of intra-firm resource possession.

### 2.2. The role of marketing within the firm

This study focuses on the contribution of marketing departments to firm performance, and the performance effects of power asymmetry between marketing and other functions. Studies of the role of marketing within the firm may be divided into four key categories. First, there is research that assesses marketing's role as an orientation, typically assessing its impact on performance. The market orientation literature is vast, and the concept and its dynamics have been examined thoroughly (e.g., Jaworski & Kohli, 1993; Kirca, Jayachandran, & Bearden, 2005; Langerak, 2003; Narver & Slater, 1990; Slater & Narver, 2000), providing mostly support for a positive link between a market orientation and performance. Other examples of studies in this vein have focused on linking different elements of strategic marketing to performance (Jaakkola et al., 2010), another argument in this category states that market orientation enhances cross functional dispersion of marketing activities such that firms embrace an activity-based approach to marketing as opposed to a functional-view of marketing (Workman, Homburg, & Gruner, 1998).

A second category of research focuses on marketing's influence at the level at which the firm's corporate strategy is formulated (e.g., Day, 1992; Piercy, 1986; Varadarajan & Clark, 1994; Webster, 1992). More recently, this stream of literature has tended to focus on the presence and role of the chief marketing officer (CMO) in the firm's top management team or corporate executive suite (Cespedes, 1995). These studies tend to posit that the CMO and marketing's status within the firm are closely related (Kerin, 2005; Nath & Mahajan, 2008; Webster, Malter, & Ganesan, 2003). As noted earlier, this category of research has already highlighted the usefulness of power theory to understand the phenomena under investigation (Cespedes, 1995).

A third category examines marketing as an organizational subunit. Exemplified by Homburg et al.'s (1999) work, these studies determine marketing's relative influence and interaction with other functional units, identifying the circumstances where marketing's influence is higher. Much research has also focused on the interaction of the marketing function with other functional units, such as R&D and engineering (Gupta et al., 1986; Shaw & Shaw, 1998; Shaw, Shaw, & Enke, 2003), manufacturing (Griffin & Hauser, 1992), sales (Homburg & Jensen, 2007a), and finance (de Ruyter & Wetzels, 2000). Others have considered departmental influence in specific contexts such as purchasing (Katrichis & Ryan, 1998). Some studies have considered interfaces between marketing and multiple functions, focusing for example on conflict management (Maltz & Kohli, 2000), or how marketing personnel interact with other people in performing marketing tasks (Walker & Ruekert, 1987). A recent paper by Atuahene-Gima and De Luca (2008) analyzed marketing's use of power and influence in new product development within high-tech companies. While explicitly recognizing the benefits of adopting a power perspective (e.g., Atuahene-Gima & De Luca, 2008; Homburg et al., 1999), and of exploring asymmetries between marketing and other functions (e.g., Maltz & Kohli, 2000), this body of literature has tended to ignore the contribution to performance of a powerful marketing function and the outcomes of power imbalance among subunits.

Finally, a fourth stream of research considers marketing's role concurrently as a function and an orientation. Moorman and Rust (1999) show that the marketing function contributes to business performance, customer relationship performance, and new product performance beyond the contribution of a market orientation. The question of course remains whether these findings still hold true after more than a decade of further growth of marketing as an orientation at the expense of its functional role. Motivated by a potential decline of the marketing department, Verhoef and Leeflang (2009) investigate the determinants and consequences of marketing's influence within the firm, and explore the link between marketing as a function and as an orientation. They find that a marketing department's influence has positive performance outcomes only because of its link to a market orientation, and note: "the failure of the marketing department's influence to explain significant incremental variance in performance beyond market orientation calls for further research" (p. 30).

Our study fits primarily within the latter research stream, a review of which reveals the following: first, while the benefits of a market orientation have attracted much research attention, evidence of a link between a powerful marketing subunit and business performance is still limited and conflicting. Second, marketing may exercise influence within the firm "by concentration", when the marketing department is powerful, or "by diffusion", when the firm is strongly market oriented. The interactions between the two, and the effect on performance, are still poorly understood. Third, the most important evidence of a relationship between marketing subunits and business performance (Moorman & Rust, 1999) is now more than a decade old. Fourth, only a handful of studies have focused on the interaction between marketing and multiple other functions simultaneously, and no study has yet addressed the important question of how particular differences between functions, such as power asymmetries, may affect business

performance. This study draws on power theory to address these crucial tensions and limitations.

### 3. Hypotheses

In this section we discuss the rationale for powerful marketing departments being beneficial to firm performance. In doing so, we control for a set of factors, such as the market orientation of the firm (to test whether the marketing function explains variance in performance above and beyond a market orientation) and the power of other functions, namely Finance & Accounting, R&D, and Production & Manufacturing. These functions were selected primarily to maintain consistency with previous studies (e.g., Homburg et al., 1999; Ruekert & Walker, 1987) and because they are present in many business to business organizations, which are the focus of this study. Next, we present a set of hypotheses pertaining to the effect on performance of power asymmetry between marketing and other functions. Finally, we consider the effect that the firm's strategy (low cost or differentiation) can have on the power asymmetry-business performance relationship.

#### 3.1. Marketing power and business performance

A firm's division of labor means that organizations can rely on different subunits to cope with uncertainty. There are performance benefits when marketing is relied upon to act as a key provider of "pseudo certainty" (Hickson et al., 1971, p.220) for other subunits. Webster (1997) highlights the perils that can ensue when the task of dealing with external uncertainty is taken away from marketing and transferred to organizational specialists that do not prioritize the voice of the customer. Dealing with uncertainty by relying on marketing's "proximity" to the customer can be crucial. This view is often justified on the basis that marketing plays a critical role as the boundary-spanning function (e.g., Wind & Robertson, 1983). Nearly three decades ago, Biggadike (1981, p. 631) already observed that even if marketing is seen merely as "one of the business functions," it is a crucial one because of its concern with the external environment. It is this external focus that makes it desirable for an organization to rely on marketing to cope with uncertainty, achieve a central position in the firm's workflow to share market information, and become non-substitutable as the customers' advocate. Lawrence and Lorsch (1967) found that marketing departments in a number of organizations had become more powerful than production departments primarily because of their role in innovation and their involvement with customers. Marketing effectively provided "certainty" to production departments, mainly through its coping activities and its central position within the firm's workflow. Hinings et al. (1974) call this a "shock absorber function", and it can be critical to firm performance.

Since Drucker (1954, p.37) famously noted that "What the customer thinks he (sic) is buying and considers 'value' is decisive – it determines what a business is, what it produces and whether it will prosper", marketing scholars have recommended integrating an understanding of customer needs and wants into every activity of the organization. Given that the marketing subunit can act as the keeper of that faith (Achrol & Kotler, 1999), allowing it to hold a central position within the workflow of activities may be crucial to reap the performance benefits that come from an understanding of the determinants of customer value. While there may be a growing tendency to think of marketing "less as a function and more as a set of values and processes that all functions participate in implementing" (Moorman & Rust, 1999, p.180), evidence indicates that a central marketing department is beneficial to performance. Moorman and Rust (1999) suggest that marketing subunits contribute to perceived performance beyond the contribution of an organization-wide market orientation, because when they are central within the workflow

of activities they can manage important connections between the customer and critical firm elements.

Based on these considerations, it is hypothesized that:

**H1.** *The higher the level of power of the marketing function, the stronger the business performance.*

### 3.2. *The performance effects of power asymmetry between marketing and the other functions*

The preceding discussion focused on absolute levels of marketing's power, suggesting that it is generally a good idea to empower marketing subunits. We now turn to the issue of the *relative* power of the marketing function: although there are strong arguments for maximizing marketing's power within the firm, too much power asymmetry between marketing and other subunits may be harmful. In marketing research, the outcomes of power asymmetry between two parties have been considered extensively in the channels literature. As Kumar et al. (1995b) notes, power asymmetry is equivalent to the difference between the two parties' levels of power. Consistent with this view, we define power asymmetry between marketing and another function as the difference between each function's levels of power.

Bilateral deterrence theory (Lawler, 1986; Lawler, Ford, & Blegen, 1988; Rubin & Brown, 1975), which has been employed extensively in the channel literature to study power asymmetry (e.g., Kumar, Scheer, & Steenkamp, 1995b), suggests that power asymmetry has negative performance outcomes because it is associated with higher levels of conflict and aggression by both parties. When power asymmetry is high, the more powerful party has few incentives to avoid conflict because potential retaliation is less likely and less damaging; the less powerful party, on the other hand, may engage in preemptive strikes or rebellious behavior against the more powerful party, because it expects to be exploited regardless of its own actions (Lawler et al., 1988). Indeed, research on channels has found that in general, symmetric power relationships are more stable and beneficial than asymmetric relationships (e.g., Kumar et al., 1995b). When power asymmetry is low, the two parties may believe that conflict could compromise the relationship, the parties' effectiveness, and the performance of the system as a whole (A. Kumar, Scheer, & Steenkamp, 1995a). They might therefore choose to cooperate towards achieving objectives that are mutually beneficial and avoiding opportunism. In contrast, when power asymmetry is high, firm objectives may become of secondary importance as the subunits engage in opportunistic and self-serving behaviors not in the interest of the firm (e.g., McAlister, Bazerman, & Fader, 1986). For these reasons, there is general agreement that asymmetric power relations are less beneficial (e.g., Buchanan, 1992).

Based on these considerations, we predict that when there is high power asymmetry between marketing and the other functions, firm performance is negatively affected because of the dysfunctional aspects of power asymmetry. In contrast, when subunits have more equal distributions of power, we would expect the benefit of symmetric relationships to eventuate. Based on these considerations, it is hypothesized that:

**H2.** *The larger the difference between marketing's power and (a) Finance & Accounting's power, (b) R&D's power, and (c) Production & Manufacturing's power, the lower the business performance*

### 2.3. *Does power asymmetry ever pay off? The contingency role of generic strategies*

The strategy type adopted by an organization can influence the amount of resources devoted to marketing activities, the distribution of power across departments, and the level of conflict between them

(Miles & Snow, 1978; Ruekert, Walker, & Roering, 1987). Miller (1988) suggests that a firm's strategy creates coordinative, technical, and control issues. As such, it can affect the distribution of power among functions and the outcomes of such distribution. Importantly, strategy type can have an impact on the performance outcomes of power asymmetry.

For low-cost competitors, it is important that all functions reduce costs systematically and in a coordinated fashion, so that above-average returns can be obtained even with low prices (Porter, 1980). Product innovation is often unnecessary and inefficient, which makes for great stability (Miller, 1988) and little need to be dependent on one specific function to cope with customer-related uncertainty. Power symmetry is desirable, with not one specific function becoming particularly central and nonsubstitutable.

In contrast, because a differentiation strategy and a low cost strategy are often seen as opposite strategies on a hypothetical continuum (Porter, 1980; Walker & Ruekert, 1987), the reverse scenario may be expected to typify a company that relies primarily on a differentiation strategy. Walker and Ruekert (1987) suggest that low cost competitors are more likely to rely equally on the competencies and power of multiple departments, while differentiators typically rely on the competencies and power of a dominant function. Consider for example a highly differentiated company like Bang & Olufsen. That company has performed well by making designers central and giving them complete freedom on how to cope with uncertainty. According to Bang & Olufsen's Design Director Flemming Moller Pedersen, power asymmetry between organizational functions seems to have worked well: "We don't want [designers] to be [unduly] influenced by other parts of the organization" (quoted in Austin & Beyersdorfer, 2007, p.5).

Porter's (1980) differentiation strategy calls for a product or service that is perceived industry-wide as being unique. Fundamentally, Miller (1988) suggests that this uniqueness can be innovation-based, or image-based. Differentiation via image management, for example, requires sophisticated advertising, prestige pricing, and market segmentation, to create a unique image for the product (Miller, 1988). Such an approach to differentiation is dependent on a superior understanding of customer preferences and competing products to inspire buyer loyalty and reduce price elasticity (Porter, 1980). In this case, because of marketing's role as a boundary-spanning function (Wind & Robertson, 1983), marketing may be in a unique position to assess consumer needs and to guide the organization towards satisfying those needs. Under an image-based differentiation strategy, where customer intimacy is particularly important, this important role can create dependencies on marketing's coping task. On the other hand, where product innovation is the dominant driver behind the firm's differentiation strategy, a technological orientation and activities such as stretching of technology and features design may mean that more reliance on a dominant R&D or production function is required. In other words, depending on the sources of differentiation, it may be desirable for one function to emerge as more powerful.

The discussion above suggests that under a differentiation strategy the negative effects of power asymmetry among functions may be lower (regardless of which function has more power), while a under a low cost strategy a more balanced distribution of power among the functions is required. Formally stated:

**H3.** *The negative effect of differences between marketing's power and the power of (a) Finance & Accounting, (b) R&D and (c) Production & Manufacturing on business performance will be weaker in firms that rely more heavily on a differentiation strategy.*

**H4.** *The negative effect of differences between marketing's power and the power of (a) Finance & Accounting, (b) R&D and (c) Production & Manufacturing on business performance will be stronger in firms that rely more heavily on a low-cost strategy.*

### 3.4. Control variables

The hypothesized model includes a number of control variables. First, we control for market orientation, to test the effect of marketing power on business performance above and beyond a market orientation. Second, we control for SBU size, to account for the possibility that larger firms might have a bigger marketing department and hence more resources that can be leveraged to acquire more power (Homburg et al., 1999), for example due to access to more resources to cope with uncertainty. Third, we control for the level of marketing representation within the firm (i.e., the highest level within the organization at which someone is present with formal education and/or training in marketing) because the higher the level at which marketing is represented, the higher the likelihood that the organization displays positive perceptions of marketing (Hambrick & Mason, 1984). Fourth, whether marketing and sales are separate functions is included as a further control variable, to take into account the possibility that a particularly close integration of the two functions can have an impact on business performance (Homburg & Jensen, 2007a). Fifth, as the nature of inter-firm rivalry within the firm's target market can affect marketing's role and performance (Song & Parry, 1997), competitive intensity is also included as a control variable. When competitive intensity is low, a business tends to perform well because customers have limited alternatives, while when competitive intensity is high customers have a greater number of options and the organization faces more challenges to attract and retain customers (Kohli & Jaworski, 1990). Sixth, if the market is large and growing, and customers place high value on need-satisfying offerings, more financial benefits may be gained by the firms that tap into these; thus, market potential (Song & Parry, 1997) is also added as a control variable. Finally, as marketing does not operate in a vacuum, we also control for the level of power of other organizational functions, namely Finance & Accounting, R&D and Production & Manufacturing, which will also have an effect on business performance.

## 4. Methodology

### 4.1. Sample and data collection

The sample frame comes from an Australian mailing list consisting of a random selection of 600 contacts in medium and large organizations (50 employees or more) in a variety of manufacturing industries. The manufacturing sector was chosen because it was sampled in previous studies of the role and influence of marketing (e.g., Homburg et al., 1999) and because they represent a good test case: if marketing is powerful in industrial organizations expected to have a strong product orientation, it may be even more so in the services industries. The sampled industries include food and kindred products (12.9%), chemicals and allied products (11%), fabricated metal products (9.7%), industrial machinery and computer equipment (9.7%), electronic and other electrical equipment (7.3%), printing and publishing industries (6.4%), and others.

The unit of analysis was the strategic business unit (SBU), and data was collected employing a self-administered field survey questionnaire distributed by mail. A key informant methodology was employed (Seidler, 1974), requiring one respondent from each SBU. Potential information bias and random error problems (N. Kumar, Stern, & Anderson, 1993) were minimized in a number of ways. First, respondents came from a uniform managerial level. Given the focus of the study, the most appropriate key informants were organizational members who could provide retrospective data on the input and performance of members of different subunits. Because participants in a decision-making process tend to overstate their own influence (Atuahene-Gima & Evangelista, 2000), key informants were senior managers, to whom staff from different areas within a business unit report. Specific job titles included managing director (67.1%),

chief executive officer (15.3%), general manager (8.4%), director (4.9%), and others. Marketing managers were not included as key informants, to enhance the credibility of our findings and reduce the likelihood of overstating the power of marketing. We included a confidence item in the questionnaire, asking respondents to assess the extent to which they believed their knowledge and expertise had allowed them to complete the survey confidently. This was measured using a seven-point Likert scale (from "not at all confident" to "extremely confident"). Only 16 surveys had a confidence score below 4 and were eliminated. Responses on all the variables used in the study were also compared according to different levels of confidence, and no significant differences were found: it is possible that some scores were lower than others due to the length of tenure of the managers involved. The final mean and standard deviation of the confidence measure were 6.05 and .76, respectively.

We took a number of further steps to minimize the intrinsic limitations of self-administered questionnaires. First, the questionnaire was limited to three pages. Second, an extensive drafting process and two pre-tests were undertaken. Third, before the survey was mailed, all key informants were contacted by mail and subsequently by telephone, to encourage participation and to ensure that the questionnaire was not forwarded to someone else. These refinements led to a more accurate and reliable mailing list, and reduced the sample frame from 600 to 535 contacts. The final sample consisted of 122 usable questionnaires, for a response rate of 22.8%. We tested for non-response bias by comparing the early and late respondents in terms of demographics and actual responses to key model variables. The t-test results revealed that early respondents did not differ from late respondents (Armstrong & Overton, 1977). Initial findings revealed the following demographic characteristics of the data: (1) the average size of the SBU was 517 full-time employees; (2) the average size of the entire firm was 4433 full-time employees; (3) CEOs possessed diverse functional backgrounds in areas such as marketing (16.4%), finance/accounting (11.5%), operations (23%), production/manufacturing (25.4%), human resource (.8%), and others (22.9%).

### 4.2. Measures

#### 4.2.1. Marketing power

Based on Hickson et al. (1971), we operationalized marketing power by aggregating scores on its three constituents: coping, nonsubstitutability, and centrality of the marketing department. As Homburg and Jensen (2007, p. 129) posit, "If a construct is a summary index of observed variables, a formative measurement model is more appropriate (Diamantopoulos & Winklhofer, 2001; Jarvis, MacKenzie, & Podsakoff, 2003). In such cases, observed variables cover different facets of the construct and cannot be expected to have significant intercorrelations." This is precisely what we have in that the three facets of marketing power have low intercorrelations (ranging from .09 to .34) and each cover different aspects of the broader concept of marketing power. The individual elements of power were measured drawing on the relevant power literature (see Table 1).

First, *coping with uncertainty* refers to a department's effective dealings with events that are uncertain and have an impact on the business's strategic decisions. The construct has two key elements: the degree of uncertainty of events with which a subunit is confronted, and the subunit's ability to cope with that uncertainty (Lachman, 1989). The degree of uncertainty incorporates in turn two key components: the unpredictability of the events, and the impact that these events have on the business's strategic decisions. Following the method employed by Hinings et al. (1974) and Lachman (1989), we compiled a list of key strategic events based on Porter's (1980) industry profitability model, which has been widely accepted as an effective model identifying key environmental issues affecting most industries. Based on Porter's model (customers, suppliers, substitutes, new entrants, and existing competitors), we developed a list of seven important and

**Table 1**  
Marketing power items.

1. *Nonsubstitutability*

a. Actual nonsubstitutability (1 = strongly disagree, 7 = strongly agree)

Consider each of the activities below, and rate your level of agreement with the following statement: "Overall, the level of formal education, experience, and training required for the job suggest that people responsible for this activity cannot be easily found."

1. Finance/accounting
2. Marketing
3. Sales (if separate from marketing)
4. Research and development
5. Production/manufacturing

b. Hypothetical nonsubstitutability (1 = strongly disagree, 7 = strongly agree)

Consider each of the activities below, and rate your level of agreement with the following statement: "If you were to reorganize your company, it would be easy to transfer responsibilities for this activity to existing employees in other functional areas, or externally by hiring agents or consultants."

The list of activities was the same as above (1–5).

2. *Centrality*

a. Pervasiveness (1 = strongly disagree, 7 = strongly agree)

Consider each of the activities below, and rate your level of agreement with the following statement: "Those performing these activities are very interconnected with those performing the other activities."

The list of activities was the same as above (1–5).

b. Immediacy (1 = not for a very long time, 7 = instantly)

If, for whatever reason, the following activity could no longer be performed, how quickly would it affect your ability to supply your customers?

The list of activities was the same as above (1–5).

3. *Coping with uncertainty*

a. Uncertainty

Rate the level of uncertainty of the following 7 events for your business, using a scale from 1 = very little uncertainty, to 7 = very high uncertainty.

1. Demand for your products/services
2. Customers' requirements
3. Availability of inputs (e.g., materials, supplies, etc.)
4. Delivery of supplies
5. Availability of substitute products
6. Competition from new entrants
7. Actions of existing competitors

b. Impact

Rate the extent to which the above 7 events have an impact on your business's strategic decisions using a scale from 1 = very little impact, to 7 = very high impact.

c. Coping

Indicate the extent to which people responsible for the following activities undertake effective actions to cope with variations in the 7 events. Such actions may include providing information to prevent variations, and/or dealing with variations once they have occurred. Please use a scale from 1 = no effective coping activities, to 7 = many effective coping activities.

The list of activities was the same as above (1–5). The list of events was also as above (1–7).

potentially unpredictable events (see Table 1). To arrive at this final list of events and their wordings, we undertook a series of pre-tests with academic colleagues and practitioners. Respondents were asked to rate the level of uncertainty and impact of the seven events. The level of uncertainty was rated on a seven-point scale ranging from "very little uncertainty" to "very high uncertainty." Similarly, the impact of the strategic events was rated on a seven-point scale ranging from "very low impact" to "very high impact." Consistent with Lachman (1989), the ratings on uncertainty were weighted by impact, so that the final uncertainty score of each event was the mean rating on uncertainty weighted by the mean rating on impact. Respondents were then asked to assess the relative degree to which the different subunits coped with uncertainty by undertaking effective actions to cope with variations in the seven events. Reflecting the different types of coping mechanisms identified by Lachman (1989), such coping actions included "providing information to prevent variations," and/or "dealing with variations once they have occurred." Respondents were asked to use a seven-point scale ranging from "no effective coping activities" to "many effective coping activities" for each of the four subunits. The final list of subunits was compiled, based on the power literature (e.g., Hinings et al., 1974; Lachman, 1989), extant research into

interdepartmental influence in marketing (e.g., Homburg et al., 1999), and pre-tests on academics and practitioners. The scores on uncertainty and coping were then multiplied to arrive at a final value of coping with uncertainty for each subunit.

Second, *nonsubstitutability* is defined as the extent to which the organization cannot obtain alternative performance for the activities of a subunit, and is measured drawing on the work of Hinings et al. (1974), and Lachman (1989). The construct is composed of two descriptors: actual and hypothetical nonsubstitutability. While the former assesses objective indicators, such as the level of formal education and experience required for a job within the subunit, the latter is concerned with the ease with which the work of a subunit could be carried out by others, internally or externally. Hence, respondents were asked the extent to which they agreed, on a scale from 1 to 7, with the following statements: "Overall, the level of formal education, experience, and training required for the job, suggest that people responsible for this activity cannot be easily found"; and "If you were to reorganize your company, it would be easy to transfer responsibilities for this activity to existing employees in other functional areas, or externally by hiring agents or consultants." The questions were followed by the list of subunits. The scores on actual and hypothetical nonsubstitutability were aggregated to produce a final score on nonsubstitutability.

Third, *centrality of workflows* was measured on the basis of the work of Hinings et al. (1974), who argued that centrality is composed of two distinct dimensions, immediacy and pervasiveness. Immediacy is defined as the effect of a subunit's activities on the organization's output. It is measured by asking respondents to estimate how quickly the firm's ability to supply its customers would be affected if an activity (e.g., marketing, production, etc.) could no longer be performed. Respondents were asked to rate immediacy on a seven-point scale ranging from "not for a very long time" to "instantly." Pervasiveness refers to the extent to which a subunit's workflow is connected to the work of the other subunits, or what Hinings et al. (1974) call "task interconnections." Respondents rated workflow pervasiveness by indicating, on a seven-point scale, the extent to which they agreed that those performing each activity are interconnected with those performing the other activities. The score on pervasiveness was then aggregated with the score on immediacy, to yield a final score on centrality of workflows for each of the four subunits.

### 3.2.2. Power asymmetry

Following Homburg and Jensen (2007b) and Tsui and O'Reilly (1989), power asymmetry was derived by squaring the difference between marketing power and the other subunits' power. A large power asymmetry reflects a large discrepancy in power between marketing and other subunits, regardless of which unit has more power. In other words, the greater the power asymmetry, the more power imbalance there is between marketing and a given subunit. This does not necessarily suggest that marketing has more or less power than another subunit but simply that a discrepancy in power exists. This approach is in line with using squared differences in the diversity literature (Jehn, Chadwick, & Thatcher, 1997; Tsui, Egan, & O'Reilly, 1992).

### 4.2.3. Differentiation and low cost strategies

The degree of reliance on a differentiation and on a low cost strategy (Porter, 1980) was measured using multi-item scales based on Homburg et al. (1999). These consist of 6 and 4 items respectively, with scales in Likert format (1 = strongly disagree and 7 = strongly agree).

### 4.2.4. Business performance

Business performance was measured by taking the average of three items: level of cash flow, fluctuation of cash flow, and profitability. Respondents were asked to rate their business unit's performance compared to their most direct competitor (1 = much worse, and 7 =

much better). Although we did not have objective performance measures, evidence suggests that managerial evaluations of subjective measures by senior-level managers are highly credible and very consistent with objective performance measures (e.g., Menon et al., 1999; Naman & Slevin, 1993).

#### 4.2.5. Control variables

Competitive intensity was measured using a seven-point Likert scale (1 = strongly disagree, 7 = strongly agree) taken from Jaworski and Kohli (1993). Market potential, adopted from Song and Parry (1997), measures the attractiveness of a target market, which reflects market characteristics such as size, the need level of the target market, and the importance to customers of products addressing those needs. SBU size was measured as the log transformation of the number of employees. Market orientation was measured using the three subdimensions of customer orientation, competitor orientation, and interfunctional coordination (Narver and Slater, 1990). All scales were in Likert format (1 = strongly disagree and 7 = strongly agree). We averaged the three subdimensions to arrive at market orientation. We also included a variable to assess whether the firm had a separate marketing and sales department (yes vs. no). Finally, we included as a control variable the highest level at which someone in the firm had a formal education/training in marketing (ranging from frontline staff to board member).

## 5. Analyses and results

### 5.1. Assessment of measures

To assess the psychometric properties of the multi-item scales, we conducted confirmatory factor analysis (CFA) for the five reflective constructs of competitive intensity, market potential, differentiation, low cost, and business performance. We did not include marketing power and market orientation in the CFA because they are formative scales. Unlike reflective scales, for formative scales, the traditional reliability and validity estimates such as Cronbach's alpha, composite reliability, and AVE are not appropriate (Diamantopoulos & Winklhofer, 2001; Jarvis et al., 2003).

Confirmatory factor analysis (CFA) indicates a reasonable fit to the data ( $\chi^2_{(79)} = 126.88$ ,  $p < .001$ , goodness-of-fit index = .89; Tucker-Lewis index = .91, confirmatory fit index = .93; root mean squared error of approximation = .07). In Table 2, we offer the findings from the measurement validation tests for the reflective constructs. Overall, two findings support the convergent validity of these constructs. First, all factor loadings are statistically significant (Anderson & Gerbing, 1988). Second, the average variance extracted (AVE) values are greater than .50 (Bagozzi & Yi, 1988). Finally, using the most stringent test of discriminant validity, the square of the intercorrelation between two constructs was less than the AVE estimates of the two constructs for all pairs of constructs (Fornell & Larcker, 1981), supporting discriminant validity. Table 2 shows factor loadings, Cronbach's alpha, composite reliability, and AVE for the reflective constructs. Table 3 shows the descriptive statistics of key constructs (i.e., intercorrelations, means, and standard deviations).

Although common method bias (CMB) may be a concern because data came from a single informant, as Rindfleisch et al. (2008) argue, using only key informants at the senior managerial level with high levels of confidence reduces the likelihood of CMB. Moreover, as Podsakoff et al. (2003) and Rindfleisch et al. (2008) state, CMB can be minimized by carefully designing survey instruments using heterogeneous measurement formats and scales. Rindfleisch et al. (2008) conclude that when there is a mix of different measurement formats, such as Likert and semantic differential, this heterogeneity contributes to reducing CMB (by disrupting consistency bias) and increases validity. The constructs employed in our study rely on a mix of different measurement formats, making the study less susceptible

**Table 2**  
Results of confirmatory factor analysis.

	Factor loading	t-values
Differentiation strategy ( $\alpha = .75$ ; CR = .76; AVE = .52)		
My business emphasizes competitive advantage through superior products	.63 <sup>a</sup>	–
My business emphasizes new product development	.81	5.64
My business emphasizes building up a premium product or brand image	.72	5.79
Low cost strategy ( $\alpha = .74$ ; CR = .76; AVE = .53)		
My business emphasizes competitive advantage through operating efficiencies	.87 <sup>a</sup>	–
My business emphasizes pursuing cost advantages in raw material procurement	.69	5.46
My business emphasizes pursuing economies of scale	.58	5.04
Market potential ( $\alpha = .73$ ; CR = .75; AVE = .51)		
Potential customers have a great need for this class of product	.87 <sup>a</sup>	–
There are many potential customers for this product, as opposed to one or few customers	.87	6.02
The potential dollar size of the market for this product is very large	.51	4.98
Competitive intensity ( $\alpha = .82$ ; CR = .85; AVE = .65)		
In this industry, customers often switch from one supplier to another	.67 <sup>a</sup>	–
Other companies often try to take away our customers	.87	7.92
Competition in this industry is very fierce	.87	7.91
Business performance ( $\alpha = .84$ ; CR = .85; AVE = .66)		
Level of cash flow	.99 <sup>a</sup>	–
Fluctuation of cash flow	.77	8.91
Profit	.64	7.34

Cronbach's alpha; CR = composite reliability; AVE = average variance extracted.

<sup>a</sup> Initial loading was fixed to 1 to set the scale of the construct.

to CMB. To further substantiate the absence of CMB, we also employed different post-hoc statistical tests. First, we ran a one-factor model where all items loaded on a single factor (Podsakoff et al., 2003). This single factor model ( $\chi^2_{(90)} = 557.89$ ,  $p < .001$ , GFI = .64; TLI = .16, CFI = .28; RMSEA = .20) provided a significantly worse fit compared to our six factor measurement model ( $\Delta\chi^2_{(11)} = 431.01$ ,  $p < .001$ ), suggesting that CMB is not a likely threat. Second, we used the marker variable method suggested by Lindell and Whitney (2001) and more recently validated by Malhotra, Kim, and Patil (2006). Following the method recommended by Malhotra, Kim, and Patil (2006), we calculated the “adjusted correlation matrix” after adjusting for common methods variance. The adjusted correlation matrix after controlling for common method variance did not significantly differ from the original correlation matrix reported in Table 3. This again points to evidence against common method bias.

### 4.2. Hypotheses testing

We report the results of our hypotheses testing in the following order. We first show the impact of marketing power on business performance (Table 4). We subsequently report the effect of power asymmetry between marketing and other functions on business performance and the moderating role of differentiation and low cost strategies (Table 5). Unless otherwise stated, we used a one-tailed test for hypotheses testing and report the standardized regression coefficients in Tables 4–5.

The result of our main effect between marketing power and business performance is shown in Table 4. Our model was significant and explained 16% of the variance in business performance ( $F$ -value = 3.16,  $p < .001$ ). Marketing power had a positive and significant effect on business performance ( $b = .21$ ,  $p < .01$ ), lending support for H1.

We tested the performance effect of power asymmetry between marketing and three other functions: Finance & Accounting, R&D, and Production & Manufacturing (Model 2, Table 5). Overall, the model was significant and explained 17% of the variance in business

**Table 3**  
Correlations and descriptive statistics.

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13
1. SBU size (log)													
2. Marketing representation	.08												
3. Marketing–sales dept. separate	.03	–.15											
4. Market orientation	–.20	.07	–.19*										
5. Marketing power	–.01	.19*	–.03	.03									
6. Finance/accounting power	–.02	–.07	–.01	–.12	.11								
7. R&D power	.11	.07	.01	–.04	.21*	.22*							
8. Production/manufacturing power	–.05	.02	.05	.19*	.03	.30***	.28***						
9. Market potential	.11	.04	–.12	.11	.03	–.07	–.02	–.25**					
10. Differentiation	.07	–.07	–.02	.29***	.10	–.05	.17	–.01	.02				
11. Low cost	.14	.17	.19*	.24**	.03	–.14	.01	.19*	.13	.07			
12. Competitive intensity	.03	.03	–.21*	.28***	.04	–.08	–.15	–.01	.23**	.03	.03		
13. Business performance	.15	–.06	–.12	.23**	.16	–.01	–.05	–.10	.16	.08	.04	–.01	
Mean	5.14	2.86	.21	5.09	106.97	75.69	90.50	106.55	5.16	4.81	5.03	5.16	4.94
Standard deviation	1.44	1.04	.41	.78	39.09	32.13	35.49	36.53	1.16	.93	1.09	1.27	1.16

\*  $p < .05$  (two-tailed test).  
 \*\*\*  $p < .001$  (two-tailed test).  
 \*\*  $p < .01$  (two-tailed test).

performance ( $F$ -value = 3.13,  $p < .001$ ). According to Table 5, two of the power asymmetries were negative and significant. First, the performance effects of power asymmetry between marketing and Finance & Accounting ( $b = -.15$ ,  $p < .05$ ) and between marketing and Production & Manufacturing ( $b = -.14$ ,  $p < .05$ ) were negative and significant, lending support for H2a and H2c, respectively. However, the power asymmetry between marketing and R&D had a positive and significant effect on business performance ( $b = .29$ ,  $p < .01$ ) counter to H2b. Hence, H2b was not supported.

Hypotheses H3a–H3c and H4a–H4c test the interactions between power asymmetry and differentiation and low cost strategies on business performance. Results are shown in Model 3 of Table 5. The variance inflation factor for each regression coefficient was well below the recommended threshold of 10 suggesting that multicollinearity was not a problem (Neter, Wasserman, & Kutner, 1985) Hypothesis H3c was supported, as the interaction of power asymmetry between marketing and Production & Manufacturing and differentiation on business performance was positive and significant ( $b = .26$ ,  $p < .05$ ). Further, H4c was also supported as the interaction of power asymmetry between marketing and Production & Manufacturing and low cost on business performance was negative and significant ( $b = -.17$ ,  $p < .05$ ). None of the other interaction hypotheses was supported.

**Table 4**  
Effect of marketing power on business performance.

	Model 1		Model 2	
	b	t-value	b	t-value
<i>Controls</i>				
SBU size (log)	.19	2.12*	.20	2.27*
Marketing/sales separate	–.12	–1.40	–.13	–1.48
Level of marketing representation	–.11	–1.25	–.15	–1.70*
Market potential	.12	1.29	.12	1.31
Competitive intensity	–.12	–1.36	–.14	–1.57
Market orientation	.37	3.87***	.36	3.87***
Finance/accounting power	.10	1.09	.08	.86
Research and development power	–.02	–.20	–.06	–.67
Production/manufacturing power	.18	1.80*	.16	1.67*
<i>Main effect</i>				
Marketing power			.21	2.39**
Adjusted R <sup>2</sup>	.13		.16	
F-value	2.79**		3.16***	
D D F			5.69*	

\*  $p < .05$  (one-tailed test).  
 \*\*\*  $p < .001$  (one-tailed test).  
 \*\*  $p < .01$  (one-tailed test).

**6. Discussion**

6.1. The power of the marketing function

The data provide some interesting insights on the power of the different organizational subunits. The most powerful subunits within the sample organizations are Production & Manufacturing and marketing. While the finding pertaining to production is not surprising, given that the sample originates from the manufacturing industries, it is interesting to note that marketing remains a more powerful function than Finance & Accounting, and particularly R&D. Much of the power of the marketing and production functions originates from their level of coping with uncertainty, with marketing being a very significant provider of certainty for other functions. With regard to centrality, marketing is not as strong as production and is perceived to be just as central as finance and accounting. This is an interesting finding, but unfortunately the lack of longitudinal data precludes us from determining whether it also suggests that marketing is in danger of being marginalized within organizations, as some observers have warned (e.g., Doyle, 2000; Shaw, 1999). With regard to substitutability, R&D and marketing are perceived to be the most non-substitutable functions within the organization, which is an interesting finding. The level of qualifications and training required by members of R&D teams are high, and some observers have noted that marketing practice often lacks that same rigor (e.g., N. F. Piercy, 2000). A closer observation reveals that the difference in actual non-substitutability between marketing and the other functions (rather than hypothetical non-substitutability) is primarily driving this effect. This could perhaps suggest that senior managers are unconcerned about the level of formal education and experience of their marketing people. Whether they should be, as some observers have lamented (Shaw, 1999) remains of course open to debate.

6.2. Marketing and business performance

Our findings suggest that a powerful marketing function contributes to business performance. While our findings are consistent with the results of Moorman and Rust (1999), they conflict with those of Verhoef and Leeflang (2009) that did not find support for a direct relationship between marketing influence and business performance. The latter explained this discrepancy by pointing to a potential recent increase in the market orientation of businesses at the expense of an influential marketing department, as well as differences in data sets (Moorman and Rust employed U.S. data, while Verhoef and Leeflang employed Dutch data). Hence they invited further research specifically in this

**Table 5**  
Effect of power asymmetry and the moderating role of strategy type on business performance.

	Model 1		Model 2		Model 3	
	b	t-value	b	t-value	B	t-value
<i>Controls</i>						
SBU size (log)	.18	2.07*	.21	2.33**	.24	2.68**
Marketing/sales separate	-.13	-1.52	-.16	-1.78*	-.15	-1.72*
Level of marketing representation	-.12	-1.35	-.15	-1.71*	-.13	-1.52
Market potential	.15	1.76*	.16	1.83*	.17	1.93*
Competitive intensity	-.13	-1.41	-.14	-1.55	-.13	-1.44
Market orientation	.31	3.42***	.34	3.48***	.34	3.51***
<i>Main effects</i>						
MP-FAP			-.15	-1.66*	-.11	-.97
MP-RDP			.29	3.08**	.21	1.82*
MP-PMP			-.14	-1.65*	-.09	-.88
Differentiation strategy			.05	.55	.04	.38
Low cost strategy			-.09	-.97	-.06	-.69
<i>Interaction effects</i>						
(MP-FAP) × differentiation strategy					-.11	-.98
(MP-RDP) × differentiation strategy					-.06	-.54
(MP-PMP) × differentiation strategy					.26	2.86**
(MP-FAP) × low cost strategy					.12	1.17
(MP-RDP) × low cost strategy					-.01	-.02
(MP-PMP) × low cost strategy					-.17	-1.94*
Adjusted R <sup>2</sup>	.12		.17		.22	
F-value	3.39**		3.13***		2.91***	
D D F			2.46*		2.22*	

MP: marketing power; FAP: finance/accounting power; PMP: production/manufacturing power.

\*  $p < .05$  (one-tailed test).

\*\*  $p < .01$  (one-tailed test).

\*\*\*  $p < .001$  (one-tailed test).

area. We addressed this question through a different but theoretically rigorous lens, and find support for a direct link between a powerful marketing function and business performance beyond the contribution of a market orientation. The differences between Verhoef and Leeflang's (2009) findings and ours may be due to a number of reasons. Those authors sampled marketing and finance executives, obtaining three quarters of their responses from marketing professionals and less than 6% from senior executives in positions such as General Managers or CEO. In contrast, we sampled only senior managers to whom professionals from different functional areas reported. Also, Verhoef and Leeflang (2009) conceptualized the strength of the marketing function in terms of top management respect, influence on specific decisions, etc. In contrast we took the view that the strength of the marketing subunit is a reflection of its power within the firm, following an established tradition developed in organizational theory (Hickson et al., 1971; Hinings et al., 1974). Such an approach has a number of strengths, as the critical contingencies perspective on power was specifically borne out of a desire to explain power distribution among subunits within organizations. Our recommendation to researchers wishing to carry out more work in this area would be to adopt and integrate both approaches.

Differences in the findings may also be explained by the geographical context of the study. While the Australian business culture is to some extent different from that found in the U.S. (primarily because it is smaller and not as open), evidence does suggest that the business environment and consumer behavior that allow firms to achieve superior business performance through marketing activities and orientations in the U.S. are also in place in Australia (Pulendran, Speed, & Widing, 2000). That might explain the similarities between our findings and Moorman and Rust's (1999). Unfortunately we are not aware of research assessing such similarities and differences between the Australian and Dutch contexts. While we see our findings as mostly valid irrespective of the economic context, research has shown that European studies of the effects of market orientation on performance tend to show more significant relationships between market orientation and business performance than those carried out

in the U.S. (Langerak, 2003), and by extension possibly also in Australia. We fully agree with Verhoef and Leeflang (2009) that more international studies on these relationships are necessary.

### 6.3. Power asymmetry between marketing and other functions

Our results indicate that power asymmetry between marketing and Finance & Accounting and between marketing and Production & Manufacturing is not beneficial to performance, while power asymmetry between marketing and R&D is beneficial to performance. Considering the growing importance of return on marketing (e.g., Rust et al., 2004) and concerns about marketing's lack of accountability (e.g., O'Sullivan & Abela, 2007), it makes sense that a high degree of power asymmetry between marketing and finance can impair business performance. Also, our sample was mainly comprised of manufacturing firms, so it is conceivable that a substantial power asymmetry between marketing and Manufacturing & Production can lead to conflict and affect coordinated efforts to achieve organizational objectives.

The finding that power asymmetry between marketing and R&D can have beneficial effects on performance was rather surprising. There are at least three potential explanations. First, the organizational context can play a role in determining the outcomes of power asymmetry between R&D and marketing (Atuahene-Gima & Evangelista, 2000). Whether a firm adopts a market driven versus a market driving approach, or a customer orientation versus a technological orientation, may determine the outcomes of power asymmetry between R&D and marketing. Market driven and customer oriented firms may benefit from a disproportionately powerful marketing department to hear the voice of the customer and adapt offerings, while market driving and technologically oriented firms may rely on a particularly powerful R&D function to tap into incipient needs through new-to-the-world offerings that create entirely new customer preferences (Jaworski, Kohli, & Sahay, 2000). In both cases, it may be desirable for one function to gain more power over the other. Second, as Workman (1993) suggests, when R&D acquires more power, it tends to develop marketing

knowledge to deal with the market, rather than depend on input from the marketing subunit. As a consequence, the gap between R&D power and marketing power could widen. It is possible that our data is capturing this “substitution” effect. Third, *Atuahene-Gima and Evangelista (2000)* suggest that the extent to which participation of marketing and R&D teams affects NPD success depends on the intensity of power exercised by each function. Specifically, their findings indicate that marketing will only be listened to when there is a level of power asymmetry in favor of marketing. In power symmetric situations, R&D may simply ignore marketing’s input. Hence, power asymmetry may be required to ensure that the voice of both functions is being heard. This is important, in light of evidence that decisions made under the influence of different functional orientations (and thought-world differences) can have positive effects on market performance (*Homburg & Jensen, 2007b*).

Finally, our findings suggest that power asymmetry between marketing and Production & Manufacturing is beneficial to performance under a differentiation strategy but detrimental to performance under a low cost strategy. Conversely, when the strategy is low cost, power asymmetry between marketing and production can be deleterious to performance because it may be associated with conflict and behavior that may lead to inefficient decision-making. Thus, differentiators may rely on a disproportionately powerful function to create meaningful points of difference (whether it originates from a product innovation or image approach to differentiation), while power should be more equally distributed among marketing and production subunits of low cost competitors (as they should both focus on cost cutting and efficiency).

## 7. Managerial implications

A key contribution of this study is the finding that a powerful marketing function makes a significant contribution to business performance, and therefore, that the apparent decline of marketing subunits is a trend that should be monitored carefully. When marketing professionals claim that they should be allocated more resources, headcount, or even opportunities for development, their requests are often met with scepticism by other organizational members, who may believe that marketing activities only lead to outcomes that are assessed through “soft” measures that are poorly or unclearly linked to performance outcomes. Testament to this is the fact that many senior managers rush to cut marketing budgets indiscriminately in times of crisis, actions that are perceived to improve the firm’s cash flow without any immediate changes to sales, customer base, and market share (*Quelch & Jocz, 2009*). Yet, our findings suggest that when marketing’s power is low, there may be negative performance consequences. In a recent interview with *Businessweek*, Phillip Kotler argues that if marketing cannot contribute to improved financial performance, it is only natural that the marketing budget is cut (*Goldsmith, 2009*). Our results provide some comfort to senior managers, by showing that having a strong marketing function can contribute to the bottom line.

Our findings also have interesting implications for the role of the Chief Marketing Officer (CMO). In recent years, both the business and academic press have bemoaned a crisis of the job of the CMO, due to shorter and shorter tenures, lack of influence, and potentially limited impact on the financial performance of their organizations (*Kiley & Helm, 2007; McGirt, 2007; Nath & Mahajan, 2008*). As *Boyd, Chandu, and Cunha (2010)* point out, the fact that marketing outcomes often cannot be easily quantified means that CMOs lose credibility and attract more blame than they deserve. This might lead Chief Executive Officers to believe that marketing does not deserve a seat at the table (*Webster et al., 2003*), and to reduce even further the marketing function’s ability to acquire and retain the resources needed to carry out its activities (*Boyd et al., 2010*). Our findings that a powerful marketing function has a direct link to business performance should contribute to persuade company executives of the important role that marketing plays within

the firm, and by extension, of the crucial role of the CMO as the primary functional executive with responsibility over marketing.

Our study also allowed us to put to the test predictions about the role of marketing that were made in the 1990s. At that time, a number of observers dismissed claims of a “decline of marketing,” and argued that marketing would and should coexist alongside a market orientation as a functional group (e.g., *Greysen, 1997; Varadarajan, 1992; Webster, 1997; Workman et al., 1998*). After more than a decade of further growth of marketing as a set of processes that everyone deploys throughout the firm, our findings support the view that “marketing specialists are needed” (*Webster, 1997, p.66*). And not only are marketing specialists still needed, but when they are allowed to become a powerful force within the organization, they can make an important contribution to business performance. Thus, we would suggest that it is desirable to let marketing exercise power within the firm both by diffusion, through the development of a company-wide market orientation, and by empowering the marketing subunit. While the simultaneous “downsizing” of the formal marketing function and “upsizing” of marketing as an orientation may be a widespread trend, it is not necessarily a welcome one from a performance point of view.

Nevertheless, given that a firm is a constellation of different functional groups, we are not advocating an indiscriminate provision of power to the marketing department. It is vital that there is some level of power symmetry in the firm among the various functional areas. This was highlighted by our findings, which indicated a negative effect of power asymmetry on business performance (with the exception of power asymmetry between marketing and R&D, which we will discuss in more detail later). Power imbalance among functional areas may have undesirable consequences for employee morale, cohesiveness, and communication. Although it was beyond the scope of our study, it is possible that significant and chronic power asymmetry can lead to animosity, conflict, and ultimately to politics among functional areas, bringing organizational demise. As an example, the infamous failure of the RCA videodisc in the 1980s (one of the most frequently cited commercial blunders) has been attributed in large part to strong power imbalances and political processes within the organization’s “competing cultures and interest groups” (*Hendry, 1989, p. 14*).

Despite the predominantly negative consequences of power asymmetry, our study’s findings also illustrate to managers how to distribute power among different functional areas contingent on the strategy employed by the firm. The adoption of a differentiation strategy can to some extent curb the negative effects of power asymmetry. *Levitt (1986)* argues that marketing is primarily about achieving distinctions through differentiation. Because over time competition erodes even the strongest sources of differentiation, the marketing function can be a powerful force to stop this deterioration, through the development of innovative marketing initiatives (*Andrews & Smith, 1996*). Management needs to be reminded that marketing can help achieve organizational objectives through its coping activities (e.g., by dealing with the uncertainty pertaining to how customers will respond to new products), network centrality (e.g., by sharing that understanding with other functions and key decision makers), and nonsubstitutability (e.g., because marketing’s contribution may not be subcontracted). Because the marketing function is trusted and relied upon to provide important strategic advice and to develop what *Levitt (1986)* terms “customer-getting distinction” through the “marketing imagination”, in some cases it is possible that an asymmetrical distribution of power in favor of the marketing function may have beneficial effects on performance.

Conversely, for firms that compete based on cost leadership, management must take extra caution to ensure that marketing and manufacturing/production have similar levels of power. When efficiency and economies of scale are important, the power of the marketing department needs to be in check so that marketing expenditures (e.g., advertising) that do not contribute to financial returns do not get

out of control. In essence, under a low cost strategy, reciprocal monitoring between marketing and manufacturing to maintain a balance of power may actually be beneficial to firm performance.

Finally, our study not only has implications at the organizational level but also at the team level. Nowadays, many firms compete at the team level. For example, new product development is conducted in teams as is key account management in sales. When personnel from various functional areas (marketing, R&D, manufacturing, finance etc.) are formed to develop new products, the decision to empower which functional area surfaces as a key issue that needs to be addressed. Depending on the type of product that is being developed, incremental or radically different, different functional areas may be equipped with more power to achieve the desired results. If time to market (i.e., speed) is the key objective, manufacturing power as opposed to R&D power may be more relevant. Conversely, if new to the market products are the chief goal, granting more power to R&D seems legitimate. Similar issues are experienced in core selling teams that serve key accounts. When long-term relationships are being pursued in B2B markets, selling firms construct core-selling teams that are comprised of individuals from different functional areas. Depending on the complexity and nature of the product being sold (e.g., extent of technical explanation required upfront or degree of after service needed), different functional areas may possess more or less power to maximize the goal set out by the team.

## 8. Research limitations and future research

This study is of course not without its limitations. First, although common in studies employing data from high-level managers, the sample was rather small due to the low response rate and so our study has limited statistical power. Further, our sample was restricted to primarily manufacturing firms, limiting generalizability. Therefore, to obtain a more complete picture of marketing power, a more diverse sample that also includes service firms could be employed. Second, while widely employed in this stream of research (e.g., Homburg et al., 1999; Verhoef & Leeflang, 2009), a cross-sectional approach does not allow to infer any causality arguments between constructs. The data under study also precludes any conclusions regarding whether marketing's influence has been declining over time, which has been an issue of significant concern in recent years (e.g., Webster et al., 2005). Future studies might consider employing longitudinal data or experimental designs, which are much needed in this stream of research. Third, our operationalization of marketing power was based on the critical contingencies perspective, given its suitability to the study of power distribution within organizations. There are further views on power that could be employed to study the phenomenon at hand, and future research could even integrate a variety of perspectives within one comprehensive model. The power measures employed could also be expanded to be more comprehensive (e.g., include further ways in which functions cope with uncertainty, more sources of uncertainty, etc.). While our measure is grounded in organizational theory and has been widely used, a more direct as opposed to a derived measure of marketing power could be developed. Relatedly, our focal interest in power asymmetry was in the unequal distribution of power between marketing and other functional areas and not necessarily on whether it is marketing that has more or less power than the other areas. This does limit our ability to understand the fine-grained details of the dynamics of how marketing power stacks up against other functional areas' power, which we discuss subsequently as a potential future research direction. A related point to this is our operationalization of differentiation. The three items we employed to measure differentiation are a combination of innovation-based and image-based differentiation. Accordingly, this precludes us to make a priori predictions on whether marketing should have more power than manufacturing/production or vice versa when differentiation is the dominant strategy. Fourth, although

unlikely, it is not entirely possible to rule out the possibility of common method bias, given the study's methodology. Hence, it would be worthy to collect data from multiple respondents (e.g., senior marketing, manufacturing, and finance managers). Fifth, although we identified a negative relationship between power asymmetry and business performance, the process by which this occurs is left unknown. Communication obstacles, conflict management, and political behavior can be process variables that could enrich our understanding of how power asymmetry affects business performance.

The following areas are also noteworthy of future research. First, Homburg et al. (1999) find that the influence of marketing is stronger in the US than in Germany. Therefore, cross-cultural research that examines how the power or marketing differs across firms in different cultural contexts can be a fruitful area of future research. Second, the need for cross-functional collaboration is increasing in today's business. Accordingly, future studies that examine how the interaction of marketing power with other functional area power can improve firm performance under different strategic conditions may provide insight for managers for effective resource allocation decisions. Third, as was mentioned above, no construct currently exists that measures marketing power per se. As the importance of return on and accountability of marketing is gaining importance along with the significance of CMOs in the firm, the time seems ripe for the development of a marketing power construct. Finally, this study was interested in power asymmetry without distinguishing which functional area had more or less power. Thus, the directionality of power was not addressed. Future studies should build and extend on this one to explore under what conditions having one functional area's power over another's benefits or harms firm performance.

## 9. Conclusion

The present study was primarily motivated by three factors: (1) limited and conflicting evidence pertaining to the effect of the marketing function on business performance, (2) concerns that marketing as a function is becoming less relevant as marketing gains prominence as an orientation, and (3) gaps in the literature on marketing's role, which has largely neglected performance outcomes and consequences of power asymmetry. Our findings indicate that a powerful marketing function is associated with higher business performance above and beyond the impact of marketing as an orientation. Consequently, we suggest that management should focus simultaneously on fostering a strong market orientation and maintaining a powerful marketing function. Furthermore, the effect of power asymmetry between the marketing and production functions on performance is contingent on the strategy type pursued, in that such power asymmetry is beneficial to performance under a differentiation strategy but deleterious to performance under a low cost strategy. Interestingly, power asymmetry between marketing and R&D departments can have beneficial outcomes. Naturally, establishing a link between marketing and business performance is only part of the challenge. It remains to convince other organizational functions and key decision makers of the benefits of maintaining the power of the marketing function within the firm. We hope that the present study provides a first step in that direction.

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