

Strategic Marketing and Its Effect on Business Performance in Three European Engineering Countries

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Abstract

This study explores empirically how different marketing resources and business orientations affect on firms' financial performance through competitive advantages and market performance, drawing its conceptual model on literature. It makes a contribution by comparing success factors and their magnitude on performance in different, country-specific business environments: three European engineering countries, or Austria, Finland and Germany. The findings indicate that inside-out capabilities are those most positively effecting to company performance. Some sensitivity by sample country was in place; generally, Germany was seen to be the most, Finland the least effective "strategic marketer". Some potential limitations for result interpretation were, however, identified.

Keywords

Strategic marketing; Marketing resources; Business orientations; Company performance

Introduction

Strategic marketing's effect on business performance is rather vague to both academics and managers. Effects of individual strategic marketing factors are unclear since they have not been studied in depth, especially so in particular business environments (Cadogan *et al.*, 2002; Morgan, Clark and Gooner, 2002; Hooley *et al.*, 2001). We propose that exploring strategic marketing's business performance requires identifying similarities in contexts and using them to parceling the effects more carefully. The primary objective of this study is to empirically test the relationships, deductible from the literature, on how different marketing resources and orientations affect on firms' financial performance through competitive advantages and market performance. A model based on marketing-related capabilities and business orientations is proposed. The model builds on the normative model of Morgan, Clark and Gooner (2002). Including both resources and business orientations to our study is justified to end up with a comprehensive illustration of strategic marketing business performance (Proctor, 2000). Country-specific differences, on the other hand, are vital for global companies to acknowledge.

In this study, the idea of context homogeneity and challenges of country-specific differences are captured by analyzing strategic marketing business performance in three different, yet relatively homogenous, engineering countries. The sensitivity of the results is closely examined by fitting the conceptual model into the company data from three engineering countries in Europe: Austria, Finland and Germany. By "engineering countries" we refer to countries where companies' competitiveness has traditionally relied on technologies and their applications. The group is rather homogenous as they all have high standard of living and membership of the EU.

Theoretical Background

This study bases largely on the theoretical grounds of the resource based view (RBV) of the firm, according to which competitive advantage, and subsequently performance, depends on historically developed resource endowments (Hooley and Greenley, 2005). In spirit of Barney (1991), firms should therefore build on resources that contribute to its ability to produce valuable market offerings efficiently or effectively (Hunt and Morgan, 1995). As Fahy and Smithee (1999) argue, intangible resources and capabilities are especially difficult to duplicate and provide thus a meaningful basis for marketing strategy development. We use the division of capabilities in market driven organizations by Day (1994) and incorporate two of them – outside-in, or customer linking capabilities and inside-out, or marketing support,

capabilities – in our conceptual model. Two other factors examined in this study are market orientation and innovation orientation. They can in a way also be considered as resources.

Primary focus in a market-oriented company is put on customer's needs and market opportunities (Walker, Mullins, Boyd, Larréché, 2006). Often used definition of Narver and Slater (1990) conceptualize market orientation to consist of customer orientation, competitor orientation and inter-functional coordination with long-term and profitability focuses. Innovation orientation, similarly to market orientation and capabilities, is a deeply inherent characteristic of a company; specially, process innovation is a prerequisite for successful product innovation (Howard, 1983).

Conceptual Model and Hypotheses

Kohli and Jaworski (1990) argue that market orientation facilitates clarify focus and vision in an organization's strategy, consequently leading to superior performance. Although the findings on this relationship have not been conclusive (Weerawardena, O'Cass and Julian, 2006; Tuominen *et al.*, 2005), several empirical studies (e.g. Kohli and Jaworski, 1990; Narver and Slater, 1990; Jaworski and Kohli, 1993; Han, Kim and Srivastava, 1998; Matsuno, Mentzer and Özsoymer, 2002; Chan, Ngai and Ellis, 1998; Hunt and Lambe, 2000; Pulendran, Speed and Widing II, 2003) with relatively consistent results have provided support, both in absolute and relative terms, to existence of the positive relationship between the constructs.

Fahy and Smithee (1999) include resources enabling value creation to be potential sources of competitive advantage. Thus, different business orientations, such as market orientation, can be interpreted as raw materials of competitive advantage. Additionally, Noble, Sinha and Kumar (2002) argue that companies acting in a market-oriented way build an advantage with high barriers for competitors to match. The following set of hypotheses is thus developed:

H_{1a}, 1b, 1c: Market orientation positively relates to market performance (**H_{1a}**), financial performance (**H_{1b}**) and competitive advantage (**H_{1c}**).

Also innovation orientation has been shown to have positive relationship with competitive advantage and related isolation mechanisms (Hooley and Greenley, 2005) and financial performance (Tuominen, 2003). Also Matsuno, Mentzer and Özsoymer (2002) found entrepreneurial proclivity (including innovativeness) to positively relate to indicators of market performance and financial performance. It is therefore hypothesized that:

H_{2a, 2b, 2c}: Innovation orientation positively relates to market performance (**H_{2a}**), financial performance (**H_{2b}**) and competitive advantage (**H_{2c}**).

Hunt and Morgan (1995) argue that “a comparative advantage in resources ... can translate into a position of competitive advantage in the marketplace and superior financial performance”. Day (1994) also argues there to be a direct connection between the mastery of distinctive capabilities and performance superiority, supported by Varadarajan and Jayachandran (1999). Additionally, Vorhies and Morgan (2005) found positive relationships for example between some inside-out capabilities and overall firm performance. Also Tuominen *et al.* (2005) identified positive link between inside-out capabilities and performance superiority. These arguments lead us to hypothesize that:

H_{3a, 3b, 3c}: Inside-out capabilities positively relate to market performance (**H_{3a}**), financial performance (**H_{3b}**) and competitive advantage (**H_{3c}**).

Moreover, according to Hooley *et al.* (2005), outside-in capabilities statistically significantly relate positively to market performance, which in turn positively relates to financial performance of a firm. Tuominen *et al.* (2005) empirically verified positive relationship between outside-in capabilities and innovativeness which further drives performance superiority. We thus come to hypothesize that:

H_{4a, 4b, 4c}: Outside-in capabilities positively relate to market performance (**H_{4a}**), financial performance (**H_{4b}**) and competitive advantage (**H_{4c}**).

In order to achieve superior market performance and above-average returns, firms need to develop and sustain competitive advantages (Slater and Narver, 1994; Fahy and Smithee, 1999). For example, a company having cost leadership can sell its offerings at low price without sacrificing its profitability. Isolating mechanisms, discussed earlier, create barriers to imitation which further increases the business performance impact of competitive advantages (Fahy and Smithee, 1999). Therefore, we come up with the following hypotheses:

H_{5a, 5b}: (Sustainable) competitive advantages positively relate to market performance (**H_{5a}**) and financial performance (**H_{5b}**).

Finally, although every firm should in principle seek for profitable growth instead of having just sales focus, e.g. PIMS studies have found a strong positive link between market share and ROI measure (Buzzell and Gale, 1987). Similar results have been achieved in many other studies, as well (e.g. Srivastava, Shervani and Fahey, 1998; Jacobson, 1988). Although the results are not entirely consistent, (e.g. Boulding and Staelin, 1990), we hypothesize that:

H₆: Market performance is positively related to financial performance.

Hypotheses just developed have been gathered into Figure 1. They only test relationships within the full three-country sample whereas hypotheses on country basis are not made.

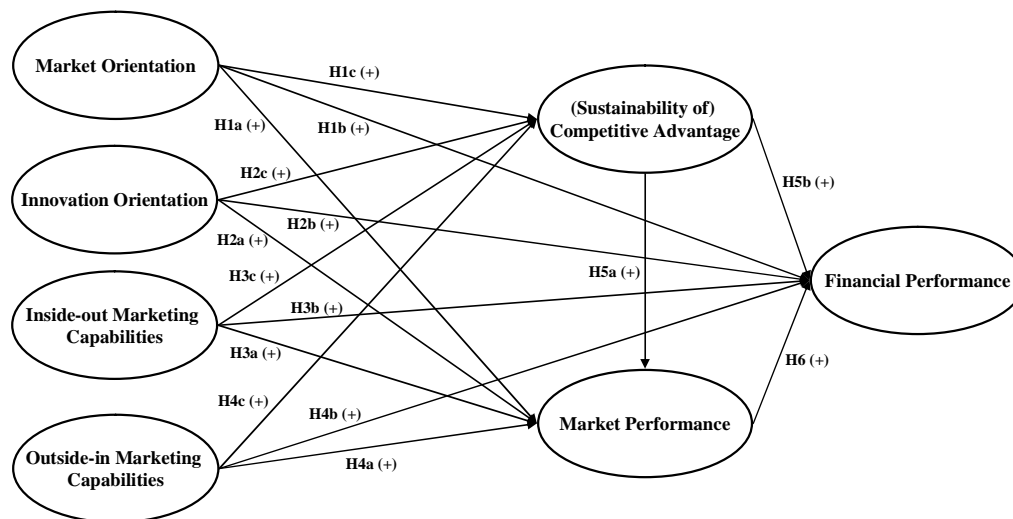


Fig. 1. Summary of hypotheses

Methodology

To test the above model, an empirical study was performed. Our data was gathered by questionnaire in 2002-2003, covering small, medium and large firms in business and consumer products and services in Austria, Finland and Germany. The sampling frame was supplied by national research institutes. The total amount of 976 usable responses was received, 249 in Austria, 327 in Finland and 400 in Germany. All measurement items were measured on a five- or seven-point scale, predominantly relative to major competitors. Although ordinal in nature, the analysis is conducted as if they were given at continuous scales (Finney and DiStefano, 2006). Since our factor structure bases on previous studies (e.g. Fahy, Moloney and McAleer, 2005; Hooley *et al.*, 2005), it is consistent to use CFA in model development and assessment. Both individual group (full sample, each country) and multiple-group (group comparison) structural equation modeling (SEM) was used.

Analysis and Results

For scale construction and validation, confirmatory factor analysis (CFA) was used. Approximately half of the original items were excluded from the model to achieve appropriate levels of unidimensionality. The fit indexes of the model were then found acceptable, being: root mean square of approximation (RMSEA) = 0.048; goodness of fit index (GFI) = 0.95; comparative fit index (CFI) = 0.98; non-normed fit index (NNFI) = 0.97. See Appendix A for a complete list of items in each construct.

Correlations between the constructs at Table 1 are reasonably low. Additionally, values for composite reliabilities and average variances extracted are almost solely above the respective thresholds of 0.6 and 0.5, recommended by Diamantopoulos and Siguaw (2000). Thus, a set of reliable and valid metrics for the constructs is provided (Kline, 2005).

Table 1 Construct means, standard deviations, reliabilities, and correlations

Construct	Mean	Standard deviation	Composite reliability	Average variance extracted	1	2	3	4	5	6	7
1. Market Orientation	5.39	0.96	0.85	0.54	1.00						
2. Innovation Orientation	3.36	0.85	0.89	0.67	0.41	1.00					
3. Inside-out Capabilities	3.45	0.64	0.75	0.42	0.34	0.52	1.00				
4. Outside-in Capabilities	3.87	0.74	0.79	0.66	0.29	0.35	0.47	1.00			
5. Competitive advantage	3.24	1.03	0.75	0.60	0.24	0.41	0.21	0.22	1.00		
6. Market Performance	3.37	0.88	0.75	0.60	0.10	0.31	0.37	0.20	0.18	1.00	
7. Financial Performance	3.40	0.89	0.88	0.71	0.13	0.27	0.39	0.19	0.22	0.53	1.00

The hypotheses were tested simultaneously using LISREL 8.72. The final model is presented in Figure 2. Covariance matrix and maximum likelihood estimation procedure were used in conducting the structural modeling. The overall model fit indices refer to good general fit between the model and data. Indices for each country are available in Appendix B.

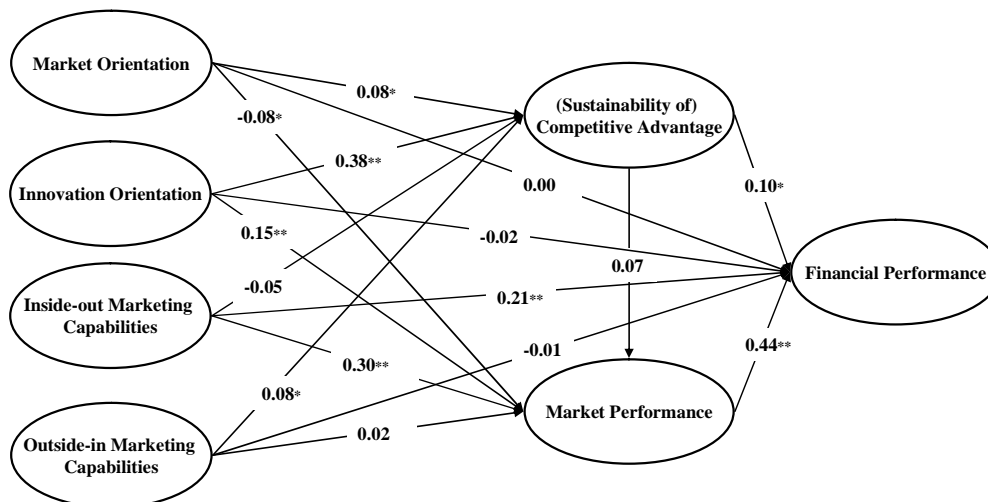


Fig. 2. Structural model with standardized path estimates (* p < 0.05; ** p < 0.01).

Model fit: $\chi^2 = 604.72$ (df = 188), RMSEA = 0.048, CFI = 0.98, NNFI = 0.97 and GFI = 0.95.

As can be seen from Figure 2, market orientation has significant, but negative relationship with market performance ($\beta=-0.08$), thus not providing support for H1a. Also its relationship with financial performance ($\beta=0.00$) does not provide support for H1b, whereas H1c – market orientation’s positive link with competitive advantage – is moderately supported ($\beta=0.08$). Innovation orientation positively relates to market orientation ($\beta=0.15$) and competitive advantage ($\beta=0.38$), supporting H2a and H2c, respectively. However, positive link between innovation orientation and financial performance ($\beta=-0.02$) was not found so H2b is not supported. Strong indications for positive effect of inside-out capabilities and market performance ($\beta=0.30$) and financial performance ($\beta=0.21$) were identified to support H3a and H3b, respectively. Results do not support H3c, inside-out capabilities positive relating to competitive advantage ($\beta=-0.05$). Outside-in orientation does not positive relate to market performance ($\beta=0.02$) and financial performance ($\beta=-0.01$) and thus support for H4a and H4b is not supported. Instead, positive relationship with competitive advantage was identified ($\beta=0.08$) and H4c thereby supported. Competitive advantage does not statistically significantly positively relate to market performance ($\beta=0.07$) but only with financial performance ($\beta=0.10$). Therefore, H5a is not supported while H5b is. Finally, very strong support is provided for positive relationship between market performance and financial performance. Thus, H6 is supported, as is a majority of the hypotheses.

Regression coefficient matrix was found statistically invariant between Austria and Germany ($p=0.10$). In addition to the hypotheses results, Table 2 presents path coefficients for each sample country and comparison over their statistical difference. Comparison of path coefficients was performed with 0.05 confidence level. Direct comparisons between regression coefficients can be made since the models are similar in all sample countries.

Table 3 presents total effects for the constructs of the study on financial performance. The full-sample results indicate that only inside-out capabilities and innovation orientation have considerable effect on financial performance. Germany is most effective in market orientation and outside-in capabilities, Austria in innovation orientation and Finland in inside-out capabilities. Germany seems to be the most, Finland the least effective “strategic marketer”. Business environmental differences thus seem to have some influence on impact of strategic marketing factors (e.g. Hooley *et al.*, 2001, Slater and Narver, 1994). Global companies are therefore forced to take differences in e.g. customer needs into serious consideration.

Table 2 Summary of the results

Hypothesis	Path	Full sample	Support	Austria	Finland	Germany	FIN vs AUT	FIN vs GER	AUT vs GER
H1a (+)	MO => MP	-0.08 *	Not supported	-0.04	-0.24 **	0.04	AUT	GER	
H1b (+)	MO => FP	0.00	Not supported	-0.12	-0.02	0.03			
H1c (+)	MO => CA	0.08 *	Supported	0.09	0.03	-0.04			
H2a (+)	Inno => MP	0.15 **	Supported	0.06	0.07	0.18 *		GER	GER
H2b (+)	Inno => FP	-0.02	Not supported	0.12	-0.11	-0.02			
H2c (+)	Inno => CA	0.38 **	Supported	0.40 **	0.24 *	0.40 **			
H3a (+)	I/O => MP	0.30 **	Supported	0.20 *	0.73 **	0.29 **			
H3b (+)	I/O => FP	0.21 **	Supported	0.24 *	0.38 **	0.09		FIN	AUT
H3c (+)	I/O => CA	-0.05	Not supported	-0.11	0.38 **	-0.05	FIN	FIN	
H4a (+)	O/I => MP	0.02	Not supported	0.23 **	-0.18	-0.15	AUT		AUT
H4b (+)	O/I => FP	-0.01	Not supported	-0.12	-0.01	0.08			
H4c (+)	O/I => CA	0.08 *	Supported	0.21 **	-0.12	0.11	AUT		AUT
H5a (+)	CA => MP	0.07	Not supported	0.08	-0.17	0.14 *		GER	GER
H5b (+)	CA => FP	0.10 *	Supported	0.12	0.03	0.08			
H6 (+)	MP => FP	0.44 **	Supported	0.35 **	0.16	0.65 **	AUT	GER	

* $p < 0.05$ (two-tailed) MO = Market orientation, Inno = Innovation orientation, I/O = Inside-out capabilities, O/I = Outside-in capabilities
 ** < 0.01 (two-tailed) CA = Competitive advantage, MP = Market performance, FP = Financial performance

Table 3 Total effects on financial performance in engineering countries

Construct	Eng. Countries	Austria	Finland	Germany
Market orientation	-0.03	-0.12	-0.06	0.05
Innovation orientation	0.10	0.20	-0.09	0.16
Inside-out capabilities	0.34	0.29	0.49	0.27
Outside-in capabilities	0.01	-0.01	-0.04	0.01
Total effects combined	0.42	0.36	0.30	0.49

Discussion and Conclusions

The results are partly surprising. For example, as low impact of market orientation on financial performance as the results show was not assumed since several previous studies have proposed the link to be strongly positive. Also, several statistically significant differences in path coefficients were identified between the engineering countries. The total effect of strategic marketing on firms' financial performance was also found sensitive to countries under study, being strongest in Germany and weakest in Finland.

One cannot, however, say surely whether the success in these countries is caused predominantly by superior strategic marketing conductance or a favorable business environment. Also, although considerable multicollinearity was not identified, factors under examination are not entirely distinctive, and so the performance implication of an individual construct may stem from its complementary role to others. Specifically, cross-sectional data does not capture sequential, temporal order of causality or the dynamics of the development of measurement, orientation and performance that the models in this study conceptually assume (Ambler, Kokkinaki and Puntoni, 2004; Hunt and Morgan, 1995). The questionnaire used in the study was answered by company managers which may also have an effect on

results obtained (e.g. Jaworski and Kohli, 1993; Barney, 1991; Neely, 2002). Further, principles of marginal utility theorem may somewhat bias magnitudes of path coefficients.

A longitudinal study in which data from this study would be used as a reference could potentially shed light on more long-term success factors. This is an important issue since factors such as marketing capabilities and different orientations are deeply embedded and slowly evolving in companies (e.g. Winter, 2003). Additionally, although statistical models would thus become more complex, including one or two operational variables in the research setting would clarify the relative effect of strategic marketing. Sensitivity of the results should be examined further. Potential extensions include industry type, market position, size of a company and other countries and groups.

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Appendix A. Final measurement items for each construct.

Market orientation ^a	<ol style="list-style-type: none"> 1. Our objectives and strategies are driven by the creation of customer satisfaction 2. Competitive strategies are based on understanding customer needs 3. Business functions are integrated to serve market needs 4. Business strategies are driven by increasing value for customers 5. Our managers understand how employees can contribute to value for customers
Innovation orientation ^b	<ol style="list-style-type: none"> 1. We are more innovative than our competitors in deciding what methods to use in achieving our targets and objectives 2. We are more innovative than our competitors in initiating new procedures or systems 3. We are more innovative than our competitors in developing new ways of achieving our targets and objectives 4. We are more innovative than our competitors in initiating changes in the job content and work methods of our staff
Inside-out capabilities ^c	<ol style="list-style-type: none"> 1. Strong financial management 2. Effective human resource management 3. Good operations management expertise 4. Good marketing management ability
Outside-in capabilities ^c	<ol style="list-style-type: none"> 1. Good at creating relationships with key customers or customer groups 2. Good at maintaining and enhancing relationships with key customers
Competitive advantage ^b	<ol style="list-style-type: none"> 1. Our competitive advantage is difficult for competitors to copy because it uses resources only we have access to 2. It took time to build our competitive advantage and competitors would find it time-consuming to follow a similar route
Market performance ^d	<ol style="list-style-type: none"> 1. Sales volume achieved relative to main competitors 2. Market share achieved relative to main competitors
Financial performance ^d	<ol style="list-style-type: none"> 1. Profit Margins Achieved relative to main competitors 2. Return on Investment relative to main competitors 3. Overall Profit Margins Achieved relative to main competitors

^a Seven-point scale ranging from 1 = "not at all" to 7 = "to an extreme extent"

^b Five-point scale ranging from 1 = "strongly disagree" to 5 = "strongly agree"

^c Five-point scale ranging from 1 = "strong competitor's advantage" to 5 = "our strong advantage"

^d Five-point scale ranging from 1 = "much worse" to 5 = "much better"

Appendix B. SEM Goodness of Model Fit Indices (df=188).

Country	Chi ²	RMSEA	CFI	NNFI	GFI
Austria	371.61	0.063	0.95	0.94	0.88
Finland	436.95	0.064	0.96	0.95	0.89
Germany	393.69	0.052	0.97	0.97	0.92