

The integration of manufacturing and marketing/sales decisions: impact on organizational performance

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Abstract

Research in the areas of both manufacturing and marketing/sales have advocated the integration of several important interrelated decisions between the two functions (i.e. product development, process development, marketing/sales planning, and manufacturing planning decisions). The process of managing the strategic alignment between a firm’s business strategy, external environment, and the integration of manufacturing and marketing/sales decisions is very complex phenomenon that requires a level of analysis that has not occurred previously. This study examined the moderating effects of business strategy and demand uncertainty on the relationship between the integration of manufacturing and marketing/sales-based decisions and organizational performance. The study found general support for the proposed model, suggesting that the impact of the integration of manufacturing and marketing/sales decision on organizational performance is moderated by a firm’s business strategy and demand uncertainty. © 2002 Elsevier Science B.V. All rights reserved.

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1. Introduction

The integration of key decision areas between manufacturing and marketing/sales is widely cited as a means for gaining a competitive advantage in the marketplace (e.g. Shapiro, 1977; Wheelwright and Hayes, 1985; Nemetz and Fry, 1988; Konijnendijk, 1994). Although there is anecdotal support that integration of decisions between these two functions may lead to increased organizational performance, there is little empirical research to support this claim. In addition, most anecdotal studies tend to ignore the substantial

costs associated with decision integration, such as the costs resulting from added structural and infrastructural mechanisms necessary for high levels of integration (Galbraith, 1973; McCann and Galbraith, 1981; Thompson, 1967; Adler, 1995).

Therefore, it currently is not clear whether the benefits of integration always will exceed the costs. The basic premise of this study is that it may not be beneficial to integrate decisions between manufacturing and marketing/sales under all circumstances. Instead, the benefits will depend on the manufacturing and marketing/sales decision area (e.g. product development as opposed to manufacturing planning), and the strategic and environmental context within which the firm is competing. This proposition is supported by an organizational contingency-based principle that organizational performance is dependent on the “fit” between an organization’s strategy, structure (e.g.

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integration), and environment (Lenz, 1980, 1981; Miller, 1988). Specifically, this study will examine the moderating effects that both a firm's business strategy and environmental uncertainty have on the relationship between the integration of manufacturing and marketing/sales decisions and organizational performance.

2. Contingency perspective and functional integration

A contingency perspective is based on the principle that organizational performance is dependent on the "fit" between an organization's strategy, structure, and environment (Preston, 1977; Lenz, 1980, 1981; Miller, 1988; Venkatraman, 1989a). That is, in order to achieve high levels of organizational performance, certain business strategies require specific structural forms, or specific environmental conditions necessitate certain structural designs. The contingency perspective rejects the premise of simple, unconditional associations between an organization's strategy, structure, or environment, and organizational performance (Lenz, 1980, 1981; Miller, 1988). Cross-functional integration among different departments represents an important aspect of organizational structure in terms of the types of lateral relationships and the degree of collaboration and participation that exists between the different functions (Lawrence and Lorsch, 1967; Galbraith, 1973; Khandwalla, 1973; Hrebiniak and Joyce, 1984). Previous research supports the premise that the relationship between functional integration and organizational performance is moderated by a firm's strategy and environment.

For example, the interaction between the level of integration and a firm's business strategy is thought to influence performance (Miles and Snow, 1978; Porter, 1985; Miller, 1988). Miller (1988) argued that for firms stressing product innovation as a means of competing, functional integration would be strongly and positively associated with organizational performance. Alternatively, he hypothesized that for firms focused on low cost as a means of competing in the market, functional integration would be negatively associated with organizational performance. Miller's study, which included 89 service and manufacturing firms, showed general support for these hypotheses.

Similarly, Lawrence and Lorsch (1967) found that the need to integrate different functions varied from one competitive environment to another. For example, in organizations where on-time delivery was critical, it was imperative that manufacturing and marketing/sales be closely integrated as opposed, e.g. marketing and engineering. In their study, the companies that were able to integrate specific functions, as necessitated by their competitive environment, outperformed those companies that did not. These findings are consistent with other work that has suggested that the need for functional integration is contingent on an organization's strategy and environmental uncertainty (Miles and Snow, 1978; Lenz, 1981; Porter, 1985).

3. Key decision areas between manufacturing and marketing/sales

Several decisions often are cited as benefiting from a high level of integration between manufacturing and marketing/sales (see Table 1). These decisions are highly interrelated, in that the decisions made by one function will have a direct impact on the decisions and actions of the other function (Shapiro, 1977; Hill, 1989; Wheelwright and Clark, 1992).

Product development decisions pertain to the development of new products, as well as to modifications of existing product designs. These decisions often place unique requirements on the capabilities of a firm's production system. For example, when General Electric's dishwasher product line underwent a change from metal to plastic tub-liners, this simple change required an entirely new type of production process capability. Critical to the successful change in this product's design was the inclusion of the manufacturing function early in the product design decision process (Wheelwright and Clark, 1992). Similarly, process development decisions pertain to the development and/or acquisition of new production processes, as well as modifications to existing production systems. Process development decisions impact the marketing/sales function, in that these decisions either can constrain or open new avenues of product design.

Marketing/sales planning decisions involve managing product demand. These decisions include long-term demand forecasting, determination of sales targets, and timing of product/sales promotions.

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