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Leveraging firm-level marketing capabilities with marketing employee development ☆

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ABSTRACT

Using the theoretical foundations of the resource-based view of the firm, this study develops and measures marketing employee development capabilities and investigates how it moderates the relationships between brand and customer relationship management capabilities and firm performance outcomes. Based on a random sample survey of chief marketing executives from selected industries, combined with objective firm performance indicators and controls, results demonstrate that marketing employee development capabilities can leverage the relationships between firm-level marketing capabilities and customer satisfaction, market effectiveness, and objective financial performance. Further, these results show that such capabilities can be complementary and, in some cases, even substitute for each other, which improves organizational performance. Implications for researchers and marketing managers are discussed.

1. Introduction

Marketing capabilities represent the *accumulated knowledge and skills of the firm's marketing employees* that are utilized to create customer satisfying outcomes and, ultimately, firm performance (Day, 1994). Consequently, many resource-based view theorists consider employee resources as a key element in a firm's ability to create, maintain, and sustain valuable marketing and financial outcomes (e.g., Greenley et al., 2005; Srivastava et al., 1998). Despite this seemingly obvious importance of a firm's employees as a route to improving marketing performance, relatively little empirical evidence exists at the *firm level* that examines this issue in the marketing context. Additionally, researchers have called for more investigation into how firms integrate the complementarities and substitutability of marketing capabilities and what effect this integration has on performance (e.g., Moorman and Slotegraaf, 1999; Vorhies and Morgan, 2005). It is argued here that the skills and knowledge of marketing employees play an important role in such integration at the firm level by leveraging the relationship between marketing capabilities, marketing outcomes, and financial performance.

Investigating the impact of the skills and knowledge of marketing employees on marketing and firm outcomes fills two gaps in the marketing literature. First, Vargo and Lusch (2004) argue that the potential new medium of exchange in marketing concerns specialized skills and knowledge in order to achieve competitive advantage. Understanding how firms can improve their competitive position in the marketplace via these skills and knowledge is thus an area of critical need since firm adaptation is viewed as dependent on marketing capability improvements (Day, 1994; Vorhies and Morgan, 2005). Second, although several studies have examined the impact of *existing* employee knowledge and skills on specific marketing outcomes (e.g., Chonko et al., 2003; Homburg and Stock, 2004; Sergeant and Frenkel, 2002), little research has actually investigated how these knowledge and skills *interact* with marketing capabilities at the firm level and how they can influence overall firm performance. To address these gaps, the current study demonstrates that marketing employee knowledge and skills can leverage the relationships between important relational and reputational marketing capabilities and their impact on marketing outcomes and firm performance.

2. Conceptual foundations

Marketing capabilities create and deliver value to customers and other external stakeholders (Day, 1994). For the purposes of this research, two externally focused higher order marketing capabilities are examined—CRM and brand management. These higher order capabilities are built on the foundation of the firm's marketing management capabilities (c.f., Vorhies and Morgan, 2005).

In their recent summary of the field, Boulding et al. (2005) describe CRM as the activities necessary to build customer relationships— “the integration of all these activities across the firm, linking these activities to both firm and customer value” (p. 157). Thus, due to its very focus on embedded routines and processes, it is advantageous

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to examine CRM as a set of capabilities (Rapp et al., 2009). As such, these capabilities focus on deploying the firm's *relational* assets. Therefore, *CRM capabilities* are defined as those resource deployments that reflect the firm's ability to establish and maintain beneficial relationships with target customers.

Brand management capabilities also play an important role in creating customer value by driving customer knowledge and expectations about a good or service offering along important dimensions such as awareness, positioning, and image (e.g., Aaker, 1996; Burmann et al., 2009; Keller, 1993). Thus, brand management capabilities focus on deploying the firm's *reputational* assets. Therefore, *brand management capabilities* are defined as those resource deployments that reflect the firm's ability to create and sustain reputational brand assets. These capabilities allow firms to create and position important aspects of the firm's market offerings to the customer in ways which create perceived customer value (Hooley et al., 2005).

Within the resource-based view literature, most resources (including capabilities) are presumed to be non-substitutable in that a competitor would be unable to replicate a firm's competitive advantage by deploying an alternative resource (e.g., Morgan et al., 2009). However, what is not addressed in this view is whether one capability may substitute *within* a firm for another capability without loss of competitive advantage (e.g., Moorman and Slotegraaf, 1999). Clearly, employees often have a knack for substituting their own knowledge and skills for firm capabilities when they view those capabilities as lacking (Postrel, 2002). An illustration of this phenomenon is when employees operate outside standard procedures to deliver high levels of customer service to frustrated customers.

Complementarity (Teece et al., 1997) refers to the ability of one capability to reinforce the impact of another capability. In the marketing literature, Moorman and Slotegraaf (1999) demonstrate complementarities among marketing and product development capabilities. More recently, Vorhies and Morgan (2005) indicate that a set of eight marketing capabilities demonstrate interdependence in their relationship with business performance. Thus, capabilities may be viewed as complementary if the resulting relationship with an outcome variable is greater if the set of capabilities and their interaction are present (c.f., Morgan et al., 2009). Similar results have been found in human resources (HR). For example, Wright, Dunford, and Snell (2001) found that HR practices such as selection, appraisal, and compensation were unrelated to financial performance alone, but they were strongly positively related to performance when the company utilized all of the practices at once.

2.1. Employee development capabilities

Research conducted in human resource management has focused on the *capabilities* needed to effectively develop and deploy human resources (Chan et al., 2004; Mueller, 1996). Here, an effectively managed human resource (HR) system is a critical process for enhancing and developing a firm's capabilities. According to Newbert (2007), HR capabilities have been viewed as the perceived importance of human resource policies, education, and screening examination criteria used in the hiring process; the type of training required; or the manner in which candidates were recruited. It is posited here that market-driven firms must possess these “people” capabilities in order to add value to the customer and firm performance via strategic competitive advantage (Day, 1994).

Since research has shown that employees are instrumental in delivering value propositions to the customer, their role in the process has not been ignored in the marketing literature (Heskett et al., 1994; Sergeant and Frenkel, 2002). Research in sales management and services marketing has recognized that customer contact employees are key in delivering quality, value, and customer satisfaction (e.g., Chonko et al., 2003; Sergeant and Frenkel, 2002; Zeithaml et al., 1990), which in turn affects the performance of the firm. For example, researchers have examined issues like sales force empowerment (e.g., Martin and Bush, 2006), training (e.g., Avlonitis and Panagopoulos, 2007; Chonko et al., 2003), and leadership (e.g., Ingram et al., 2005). However, little research has been conducted at the organizational level to understand whether improving employee knowledge and skills improves firm-level marketing capabilities (Vargo and Lusch, 2004; Vorhies and Morgan, 2005). In this study, *marketing employee development capabilities* are defined as those resource deployments that reflect the firm's ability to systematically and routinely maintain and enhance the knowledge and skills of marketing employees. Thus, marketing employee development capabilities are viewed as a key enabler in enhancing the integration of firm-level marketing capabilities. The increased knowledge and skills of these employees are then embedded in marketing capabilities (Day, 1994; Srivastava et al., 1998), improving them and making them more efficient and effective in terms of substitutability and complementarities.

In turn, these capabilities and their interactions hold the potential to increase customer satisfaction, market effectiveness, and financial performance as they enable the firm to better meet customer needs (Day, 1994). Thus, marketing employee development capabilities allow companies to integrate employee knowledge within the firm and then apply this knowledge to current marketing capabilities and strategies (Day, 1994; Srivastava et al., 1998; Teece et al., 1997).

2.2. Performance outcomes

According to customer equity theory (e.g., Gupta et al., 2004), a firm's customers, especially the *satisfied* ones, are valuable intangible assets. Thus, customer satisfaction has been the cornerstone or benchmark of the success of many marketing programs. Additionally, market effectiveness refers to the degree with which marketing-related performance goals of the organization, such as market share growth, are achieved. Recently, researchers have called for investigating the link between CRM processes, customer satisfaction, and market effectiveness (Boulding et al., 2005; Gupta et al., 2004). However, Reitz (2005) found that “people issues” need to take precedence to CRM implementation in order to achieve better performance. Barney and Wright (1998) further state that happy, well-managed employees lead to higher customer satisfaction and that there is an important need to understand the complementarities between these capabilities. Thus, given the foundations of the resource-based view of the firm, human resources, and capabilities theory used in this study, it is posited that:

H1. Marketing employee development capabilities moderate the relationship between CRM capabilities and (a) customer satisfaction, (b) market effectiveness.

Based on the brand equity literature (c.f., Keller, 1993), a firm's brand image and public reputation represent a critical intangible asset that has financial content and long-term value. According to market-based asset theory (Srivastava et al., 1998), good brand management capabilities can lead to a higher brand equity, which can then, in turn, lead to higher market share and ultimately higher financial performance. The power of the brand has also been advocated as important to improving customer satisfaction. Here, it is argued that such reputational assets can contribute to customer satisfaction via positive associations (e.g., Hooley et al., 2005). Research has also found significant links between brand image, reputation, and market effectiveness (c.f., Brown et al., 2006).

Research in HR has found that the best organizations utilize employees to reinforce the unique values of an organization's culture which can enhance its image, reputation and, ultimately, shareholder value (Pfau and Kay, 2001). Thus, HR practices can have synergistic