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The Application of Human Resource Management Policies Within the Marketing Organization: The Impact on Business and Marketing Strategy Implementation

Abstract

Characteristics of the marketing organization and their relationship with strategy implementation have been the focus of considerable research over the past three decades. These characteristics include the marketing organization's structure, culture, processes, influence and leadership, among others. However, little attention has been paid to human resource management policies for marketing personnel. These policies, when properly implemented, are among the strongest motivators for appropriate individual and organizational behavior. We demonstrate in this study that the application of HR policies for mid-level marketing managers (i.e., selection, training, appraisal, and compensation) vary significantly both between firms pursuing alternative business strategies (i.e., Prospectors, Analyzers, Low Cost Defenders and Differentiated Defenders) and within each of those business strategy types by the type of marketing strategy adopted (i.e., Aggressive Marketers, Mass Marketers, Marketing Minimizers, Value Marketers). Firms whose business and marketing strategies align (Fit) demonstrated significantly stronger overall firm performance scores than those whose business and marketing strategies do not align (Misfit).

1. Human Resource Management Policies for the Marketing Function: An Overlooked Source of Competitive Advantage

While empirical research on characteristics of the marketing organization has been conducted since, at least 1957 (Bund & Carroll, see Workman, Homburg, & Gruner, 1998 for a thorough review), the rapid rate of market, technological and strategic change continues to make the study of marketing organization both relevant and important. Aspects of marketing organization that have been studied include marketing strategy (e.g., Atuahene-Gima & Murray, 2004; Slater & Olson, 2001), structure (e.g., Vorhies & Morgan, 2003; Olson, Slater, & Hult, 2005), culture (e.g., Deshpande, Farley, & Webster, 1993; Slater, Olson, & Finnegan, 2011; Yarbrough, Morgan, & Vorhies, 2011), strategy making and implementation systems (e.g., Noble & Mokwa, 1999; Menon, Bharadwaj, Adidam, & Edison, 1999), performance measurement systems (e.g., O'Sullivan & Abela, 2007; Homburg, Artz, & Wieseke, 2012), and processes/capabilities (e.g., Jaworski & Kohli, 1993; Vorhies & Morgan, 2005). However, a major but largely overlooked organizational/strategic consideration is the role of human resource management (HRM) policies for middle level marketing managers.

We begin by reviewing the literature that links marketing and HRM policies and the contribution such linkages make to the development of a position of competitive advantage. We then turn our attention to a review of the major categorical HR policies that impact the marketing function and how marketing managers approach their jobs. We follow this with a discussion of strategic contingency factors that we hypothesize will influence the relative emphases marketing managers place on these policies along with implications for explaining variances in overall firm performance. We subsequently describe our research design and analytical techniques. The last section of the manuscript concerns the results of our analysis, their interpretation, and their organizational and scholarly implications.

1.1 Marketing and HR Research

While marketing's interactions with other functional departments – most notably R&D (e.g., Ruekert & Walker, 1987a, 1987b) -- has garnered considerable attention, the base of literature examining the relationship between marketing and HRM is comparatively sparse. What little work that has been conducted in this area focuses predominantly on issues of relationship marketing and internal marketing.

Collins and Payne (1991) considered the HRM-marketing relationship from an internal marketing perspective -- the idea that marketers seek to align all functions within their own companies to satisfy external customers. They argue that while internal marketing relates to all functions within a firm, "…it is vitally concerned with the management of human resources" (p. 261). They define the HRM-marketing function in terms of, "… seeing managers and employees as in-house customers, viewing the tasks and activities performed by the HRM function as in-house products or services, and offering in-house products or services that satisfy the needs and wants of managers and employees, while addressing the objectives of the organization" (p. 264).

Ballantyne (2000), in considering the concept of internal marketing within the context of the banking industry, identified organizational learning and change management as potential benefits of integrating HRM thinking into the marketing domain.

Piercy (1998) speculated that tremendous benefits could be realized through closer collaboration between marketing and HR. He identified four specific mechanisms: 1) realigning training processes with customer issues, 2) reinforcing employee ownership of service encounters, 3) tracking of customer and employee satisfaction, and 4) establishment of linkages between customer satisfaction measures and training.

Giannakis and Harker (2014) examined the strategic alignment between relationship marketing and HRM practices within the financial services industry based on the belief that service-based companies even more than product-based companies, "…must have a focus on firm-customer relationships and therefore have relationship management at the heart of tactical marketing processes and strategic corporate philosophy." Marketing success is largely dependent on the how well the firm manages people both outside (customers) and inside (front-line service providers). "Most fundamentally, excellent services' marketing is based on services provision, service provision is based on service providers, and the quality and ability of service providers is a function of HRM. In short, successful implementation of marketing requires successful implementation of HR strategies and operations tactics." They concluded that, for high quality service to be provided to customers, organizations need high-quality people, and that they be recruited, developed, and maintained by HR. Consequently, it is imperative that HR and marketing be aligned.

While most research that focuses on the linkages between marketing and HRM either proposes or demonstrates positive outcome through such associations, Rafiq and Ahmed (1993) challenge whether marketing concepts and tools can be applied to internal markets. They asked whether internal customers could really be thought of as customers when they can be coerced into buying due to the contractual nature of employment.

Chimhanzi (2004) developed and tested a conceptual model that focused on the antecedents of effective marketing/HR interactions and posited successful marketing strategy implementation as an outcome. Her underlying thesis is that successful strategy implementation relies on daily activities performed by employees at all levels of the organization, which includes marketing personnel. Reasons for poor marketing performance include factors such as poor training and low motivation. These conditions may occur due to HR developing systems (training, reward, remuneration, development, appraisal) in isolation. Similarly, HR may not understand the requirements of the marketing function if marketing strategies and plans have likewise been developed in isolation. This lead her to hypothesize that marketing strategy implementation effectiveness will be influenced by the level of connectedness between marketing and HR as well as the frequency of written and interpersonal communication and finally by the absence of conflict between the two functions. Alas, only interpersonal communication and the absence of conflict demonstrated significant positive relationships to the defined outcome variable.

1.2 Human Resource Policies

While the research referenced above supports the notion that HRM offers the potential to improve the operations of the marketing function, the prescriptions these studies put forth are rather broad in nature. As a group, they do not delve down to the level of specific HRM policies. Human resource policies, "consist of those functions and activities necessary for the effective management of the company's human resources. The major purposes of these activities traditionally have been to attract, retain, and motivate employees" (Schuler & MacMillan, 1984; p. 242). In this study, we examine selection, training, appraisal, and compensation policies for middle managers in the marketing organization to identify those that are associated with -- if not conclusively causal of -- superior overall firm performance.

1.3 Human Resource Policies and Competitive Advantage

Barney (1991) provided the first rigorous definition of competitive advantage as occurring "when a firm is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors" (p. 102). Thus, competitive advantage requires that a firm resource be valuable and rare. However, the fact that a resource is valuable and rare does not mean that competitors will not easily copy it. Thus, for a resource to represent sustainable competitive advantage, it also must be difficult to imitate and non-substitutable. Per Barney (p. 102), "firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies..."

Barney and Wright (1998, p. 32) noted that the "firm's human resources, including all of the knowledge, experience, skill, and commitment of a firm's employees," may provide a firm with a source of competitive advantage. From the perspective of this study, a key question is, to what level do human resource management practices constitute organizational processes that facilitate the development and implementation of strategy? Jeffrey Pfeffer (1994, p. 10) argued that, "People and how we manage them are becoming more important because many other sources of competitive success are less powerful than they once were." Pfeffer (p. 17) goes on to argue that, "…what remains as a crucial, differentiating factor is the organization, its employees, and how they work."

A substantial body of research has been published linking the resource-based view to the human resource function. Wright, McMahan and McWilliams (1994, p. 322) observed, "…that human resources can be a source of sustained competitive advantage because they meet the criteria of being valuable, rare, inimitable and non-substitutable." Huselid, Jackson and Schuler (1997) demonstrated the existence of a positive relationship between effective strategic human resource management and corporate financial performance, productivity, cash flow and market value. Wright, Dunford and Snell (2001) subsequently examined the impact RBV has had on both the theoretical and empirical development of strategic human resource management.

Additional research has shown that HR as a source of competitive advantage can occur at either the corporate or business-unit level. Schuler and Jackson (2002, p. 140) observed, "...that firms with more than one business are likely to have more than one set of HRM practices." Schuster (1984) further observed that within high technology firms, compensation plans vary as do their effectiveness levels. Balkin and Gomez-Mejia (1990) in a study on compensation and organizational strategies noted that pay strategies at the corporate-level cover a wide range of policies where at the SBU level they are more focused. What is largely missing from this literature is an examination of how strategic human resource management is implemented at the functional level. While it has become accepted that properly designed rewards systems can be instrumental in helping a firm or business unit accomplish its strategic objectives, what guides HR managers as they construct policies for functional-level marketing managers to effectively implement business-level strategy?

If indeed human capital is a source of sustainable competitive advantage, then marketing personnel and the specialized knowledge they possess must certainly conform to that definition. Thus, it should be important to virtually every firm that HR policies for the marketing function promote the processes of appropriately selecting, training, appraising, and compensating those individuals who make up this group.

Selection: Snell and Dean (1992, p. 473) state, "One of the most obvious ways firms enhance their stock of human capital is through the individuals they hire." They posit that firms with more complex manufacturing processes will require employees with more specialized skills which in turn requires on the part of the firm a greater commitment of time and resources to identify and hire the most qualified candidates. This additional expense will be recouped through higher levels of productivity.

Training: Firms invest in training when the enhanced knowledge from such training has the promise to increase productivity at a level greater than the direct expenses associated with that training (Snell and Dean, 1992). Firms with complex products or services and/or firms producing products or services subject to rapid change will also be more likely to invest in training.

Appraisal: Performance appraisal has two purposes (Hofstede, 1978): administration (e.g., determining who to promote, terminate, and give raises to) and development (e.g., the extent to which feedback is given and skill set training needs are considered). Human capital theory (Becker, 1962) holds that employee development makes sense when enhanced employee skill sets hold the promise of generating additional revenue or productivity increases greater than the cost of training. Consistent with this then is the idea that the cost of conducting extensive appraisals of marketing department employees makes financial sense when the importance or impact of decisions made by these employees holds the potential to swing revenues and/or profits either pro or con to significant degrees.

Compensation: Compensation systems are designed to reward past and influence future behaviors. Balkin and Gomez-Mejia (1990) observed that compensation is a multi-dimensional construct. They identified three broad categories: *Pay Strategies*, *Market Positioning*, and *Pay Policies*. Pay strategies focuses on the relative importance of salary, benefits, and incentives in the overall compensation mix. Market positioning refers to the level to which compensation within a given firm is above or below industry average. Pay policy choices consider a firm's administrative framework criteria, and procedural approaches to compensate employees.

Although Balkin and Gomez-Mejia (1990) do not provide descriptive explanations of each of the pay policy measures they incorporated into their study, we can deduce their meanings from the survey questions they created for each. We have included the following pay policy measures in this study: 1) *Risk Sharing* (marketing employee earnings are partially dependent upon departmental performance goals being achieved), 2) *Internal Equity* (comparable pay across different parts of the marketing department), 3) *Pay for Performance* (raises are determined on merit not tenure), 4) *Job-Based Pay* (jobs are assigned a pay range based on job duties with variances based only on education and seniority), and 5) *Long-Term Pay* (recognizes that long-term results are more important than short-term results and that projects may cover multiple years and that relationships with key customers are important for the long-term).

2. Contingency Model

The model depicted in the figure illustrates the underlying thesis of this study – that HR policies for the marketing function will vary with the demands of the job as dictated by the overarching business strategy adopted by the firm and by the degree to which the adopted marketing strategy fits with the adopted business-level strategy. This position is consistent with Porter's (1996, p. 73) observation that, "Strategic fit among many activities is fundamental not only to competitive advantage but also to the sustainability of that advantage. It is harder for a rival to match an array of interlocked activities than it is merely to imitate a particular sales-force approach, match a process technology, or replicate a set of product features."

Insert Figure About Here

2.1 Business Strategy

Business strategy is concerned with how businesses compete in an industry or market (Varadarajan & Clark, 1994; Walker & Ruekert, 1987). The two dominant frameworks of business strategy that have emerged are the Porter typology (1980) -- with its focus on external competitors -- and the Miles and Snow typology (1978) -- with its focus on intended rate of product-market change (c.f. Hambrick, 2003).

In this study, we follow the lead of Walker and Ruekert (1987) who first proposed a merger of these two typologies, and Slater, Olson and Hult who through a series of studies (e.g., Slater & Olson, 2000, 2001, 2002; Olson & Slater, 2002; Olson, Slater & Hult, 2005; Slater Olson & Hult, 2006; Slater, Hult & Olson, 2007) helped to validate the existence of a hybrid typology of business strategies. Adopting their model, in this study we consider: Prospectors (those continuously seeking to locate and exploit new product market opportunities), Analyzers (quick second movers who seek to capitalize on successful product/market opportunities created by Prospectors in terms of enhanced features/services or lower costs), Low Cost Defenders (those who attempt to seal off a portion of the total market by providing a stable set of products or services at the overall lowest costs), and Differentiated Defenders (those who attempt to seal of a portion of the total market by providing a stable set of products or services of superior quality).

2.2 Marketing Strategy

Irrespective of which business strategy a firm -- or division within a large firm -- adopts, successful implementation will to a large degree be dependent upon the level to which the chosen marketing strategy supports the firm’s -- or division’s – chosen business strategy and objectives (Walker & Ruekert, 1987). Marketing strategy is the set of integrated decisions and actions (Day,1990) by which a business expects to achieve its marketing objectives and meet the value requirements of its customers (Cravens & Piercy, 2008; Varadarajan & Clark, 1994). Marketing strategy is concerned with decisions relating to market segmentation and targeting, and the development of a positioning strategy based on product, price, distribution, and promotion decisions (Corey, 1991; Hunt & Morgan, 1995; Kotler, 1994, McCarthy, 1960).

Slater and Olson (2001) created an empirically-based typology of marketing strategy that consists of four distinctive alternatives. They describe these as: 1) *Aggressive Marketers*: high quality and innovative products, premium prices, select distribution strategy, an internal sales force, investment in advertising and marketing support functions. 2) *Mass Marketers*: offer broad product lines of largely undifferentiated products, sold through an intensive distribution system at lower prices. 3) *Marketing Minimizers*: offer the lowest level of customer service with limited marketing activities and product lines that are characterized by low innovation and low prices. 4) *Value Marketers*: utilize selective distribution channels to provide high quality and innovative products but at lower prices than Aggressive Marketers with a heavy reliance on an internal sales force.

Slater and Olson (2001) demonstrated that overall firm performance was superior when specific combinations of business strategies and marketing strategies were matched (i.e., Fit). Specifically, they identified these matches to be: Prospectors and Aggressive Marketers, Analyzers and Mass Marketers, Low Cost Defenders and Marketing Minimizers, and Differentiated Defenders and Value Marketers. While these are the ideal pairings, they noted that for every business strategy type there were firms whose choice of marketing strategy was mismatched (i.e., Misfit), (e.g., Prospector firms whose chosen marketing strategy was Mass Marketers, Marketing Minimizers, or Value Marketers).

2.3 Impact of HR Policies on the Marketing Function by Business Strategy Type

Balkin and Gomez-Mejia (1990) examined differences in HR compensation policies within the context of 1) three alternative corporate strategies (single product, dominant product, related product) and 2) two alternative business unit strategies (growth vs. maintenance). Their study was broad based as they did not focus on specific functions (e.g., marketing, operations) and largely descriptive in nature.

We build upon their study in two important ways. First, we focus our attention solely on the marketing function. Second, we examine HR policies for the marketing function simultaneously within the framework of four alternative business strategies and four alternative marketing strategies.

Snell and Dean (1992, p. 473) observed that the primary way in which firms invest in their employees is through their human resource practices. However, such investments are not uniform across all firms. Rather, levels of investment in human capital vary based upon the degree to which managers in these firms believe such investments will enhance their ability to achieve superior firm performance (Snell & Dean 1992; Balkin, Gomez-Mejia, 1990). With respect to the marketing function, prior research (Miles & Snow, 1978; Walker & Ruekert, 1987) demonstrated that the relative importance of the marketing department varies between firms based, at least to a degree, on the adopted business strategy.

Miles and Snow (1978) noted that marketing is a member of the dominant coalition in both Prospector and Analyzer firms but not so within Defender firms. In further delineating the Defender category Walker and Ruekert (1987) observed that process engineering, production, distribution, and financial management represented the members of the dominant coalition within Low Cost Defenders whereas sales, financial management, and those functions related to differential advantage – which for some firms include marketing -- comprised the dominant coalition within Differentiated Defender firms. Thus, marketing's importance within Low Cost Defender firms is comparatively low whereas in Differentiated Defender firms, marketing's importance may range from low to high dependent on how closely linked marketing activities are to the maintenance of a given firm's differential advantage.

Resource dependence theory (Pfeffer 1992; Pfeffer & Salancik, 1978) posits that organizations are dependent upon multiple resources, one of which is labor. While marketing may be considered a resource in all for-profit businesses, its importance within Prospector firms is paramount given the on-going needs of these firms to identify new market opportunities and subsequently educate the market as to the existence and benefits of new-to-the-world products. Analyzers also are heavily dependent upon marketing, but to a slightly lesser degree. Rather than identifying new products and/or markets, Analyzers rely upon members of the marketing function to help identify successful Prospector product launches in order to quickly come to market with either a lower priced or enhanced version of the original market offering. Analyzers do not have to educate the market to the existence of new product categories created by Prospector firms. However, marketing personnel within Analyzers must assist in determining specific product features as well as taking the lead in educating the marketplace to the benefits of their products over the initial products offered by Prospectors. They are also responsible for providing comparable service levels. In marked contrast, Low Cost Defenders prosper by offering fairly-stable product lines at comparatively low prices. With the goal of keeping costs to bare minimums, marketing's role is reduced to absolute essential activities – which is predominantly sales. As the purchase criteria of customers who buy from Low Cost Defender firms is low price, these customers do not expect highly innovative products or high levels of service thus reducing the overall importance of marketing within these firms. Likewise, Differentiated Defenders typically offer stable products, which to a large degree negates the need to identify emerging product opportunities. This in turn eliminates the need to educate the marketplace as to the benefits of new product offerings. However, customers who purchase from Differentiated Defender firms expect and are willing to pay for higher levels of service, and/or product quality (e.g., product functionality, reliability, brand image). Though not exclusively the responsibility of the marketing department, insuring customer satisfaction will certainly be one of their main responsibilities. Thus, it is very important that firms pursuing this strategy hire the appropriate individuals though training may be somewhat mitigated by the lack of dramatic changes to the products/services they represent.

This leads us to conclude that: 1) the importance of HR selection, training, and appraisal policies for the marketing function will vary by strategy type based upon the demands each strategy type places on the marketing function, and 2) that the adoption of specific compensation policies will also vary between strategy types based upon the demands each strategy type places on the marketing function. We summarize these 48 predicted relationships between business strategy type and the importance or adoption of HR policies for the marketing function in Table 1.

Insert Table 1 About Here

2.4 Impact of HR Polices on the Marketing Function Within Business Strategy Type (Fit vs. Misfit)

Slater and Olson (2001) observed that, "…superior performance at the firm or SUB level was achieved when specific marketing strategy types were matched with appropriate Miles and

Snow (1978) business strategy types." Consequently, we now look to see what level of variance occurs within business strategy types for each of the HR policy issues identified above.

Resource theory again suggests that those policies that are deemed most important to the success of firms within a business strategy type (e.g., Prospector) will be as important or more important within *fit* firms (i.e., Aggressive Marketers) than they are within *misfit* firms (i.e., Mass Marketers, Marketing Minimizers, Value Marketers). This seems logical for firms where the marketing function is a key member of the dominant coalition. However, this logic may not apply to Low Cost Defenders where we predict mean scores on HR policy measures will be consistently lower. This begs the question as to whether it is logical to assume that comparatively low overall scores for firms pursuing this business strategy would be even lower within fit (i.e., Marketing Minimizers) firms than misfit firms (i.e., Aggressive Marketers, Mass Marketers, or Value Marketers)? If this were the case, then the logical conclusion would be to take scores down to absolute zero (e.g., the search process for new marketing hires is 0). This of course does not pass the face test for validity as basic logic tells us that new marketing employees don't just materialize out of thin air. There must be some process by which new employees are identified and hired. Although we anticipate that overall scores for fit Low Cost Defender firms will be comparatively low, we see no reason to expect those firms will generate lower scores than for misfit Low Cost Defender firms. Thus, we predict no differences in mean scores between fit and misfit Low Cost Defender firms with the exception of Job-Based Pay where we predict fit firms will generate significantly higher scores.

2.5 Selection, Training, and Appraisal

While the activities that make up the selection, training and appraisal processes are distinctly different from one another, given their sequential nature we anticipate they will be highly correlated. Consequently, firms whose overall performance is highly dependent upon the marketing function will commit greater amounts of time, effort, and money to the process of selecting new marketing hires than to firms whose overall performance is less dependent upon the marketing function. These firms will also commit greater resources to the training of new marketing hires and the on-going training of marketing employees. Given their relative importance to the overall success of the firm, managers in these firms will also dedicate greater time and effort to the process of appraising individual marketing employee performance.

2.6 Compensation

Every firm is obligated to compensate their marketing personnel. Thus, measuring the importance of compensation provides us with little useful information. Instead, we consider the level to which various pay policies are adopted. As previously described, these policies fit into three sub-categories: *Pay Strategies* (salary, benefits, incentives), *Market Positioning* (how marketing department compensation compares with competitors), and *Pay Policies* (the level of risk sharing across the department, the level to which firms try to keep compensation consistent across the marketing department, the degree to which compensation for marketing department members is based on merit-based pay *(outcomes)* versus job-based pay *(specific activities and pay grades)*, and the degree to which compensation is based on long vs. short-term performance outcomes).

Firms whose overall performance is highly dependent upon the marketing function (i.e., Prospectors and Analyzers) will offer higher salaries, benefits, and incentives than firms whose overall performance is less dependent on the marketing function. These firms will also have higher pay levels for marketing employees relative to major competitors, ask their marketing employees to put a greater portion of their compensation at risk (i.e., dependent upon project outcomes), base compensation on merit (outcomes) more so than on activities engaged in or pay grade (job-based pay) and expect compensation to be paid out over a longer period-of-time consistent with the various stages of product/service development and commercialization. These firms will have little incentive to maintain consistency in compensation within their respective marketing departments as marketing employees with highly specialized and valuable skills will demand higher levels of compensations commensurate with market conditions.

In Table 2 we consider the same HR policies for the marketing function as those detailed in Table 1. However, this time we consider those policies within groups of firms pursuing a specified business strategy (e.g., Prospectors). Specifically, we consider differences in the comparative importance or adoption of HR policies between firms whose business and marketing strategies fit (e.g., Prospectors: Aggressive Marketers) and those whose marketing strategies do not fit (e.g., Prospectors: Mass Marketers, Marketing Minimizers, Value Marketers). Table 2 demonstrates 48 predicted relationships in terms of relative importance (selection, training, appraisal; and nine compensation policies) between fit and misfit firms within four business strategy types. For Prospector, Analyzer, and Differentiated Defender firms we predict that fit firms will by and large place greater importance on selection, training and appraisal processes and greater emphasis on compensation policies as demonstrated in Table 2. However, given the low level of importance Low Cost Defender firms place on the aforementioned HR policies, we do not expect to see a significant difference between fit and misfit firms within their ranks.

Insert Table 2 About Here

2.7 Overall Firm Performance

Performance should be viewed in the context of the firm's objectives, strategy, and market structure. We follow the lead of other marketing strategy researchers (e.g., Jaworski and Kohli 1993; Olson, Walker, and Ruekert 1995) and use a global measure of firm performance. We use overall firm performance (i.e., level to which a firm met expectations, exceeded major competitors, and satisfied top management) because of its relevance despite the nature of the contextual influences. As Ittner and Larcker (1997, p. 17) note, "overall perceived performance should encompass not only the organization's performance on the preceding dimensions (return on assets, return on sales, and sales growth), but also any other financial and nonfinancial goals that may be important to the organization." Morgan, Kaleka, and Katsikeas (2004) found a strong correlation between objective performance data and subjective assessments of performance by key informants, which supports the validity of key informant data.

2.7.1 Within Business Strategy Types (Fit vs. Misfit):

Firms where an appropriate match between business strategy and marketing strategy is present (Fit) should demonstrate higher overall performance scores when compared with firms whose marketing strategies do not match (Misfit) with their adopted business strategies. Consequently, we predict the following with regards to overall firm performance:

Within Prospector firms: Aggressive Marketers (Fit) > Mass Marketers, Marketing Minimizers, Value Marketers (Misfit).

Within Analyzer firms: Mass Marketers (Fit) > Aggressive Marketers, Marketing Minimizers, Value Marketers (Misfit).

Within Low Cost Defender firms: Marketing Minimizers (Fit) > Aggressive Marketers, Mass Marketers, Value Marketers (Misfit).

Within Differentiated Defender firms: Value Marketers (Fit) > Aggressive Marketers, Mass Marketers, Marketing Minimizers (Misfit).

2.7.2 Between Business Strategy Types (Equifinality):

The concept of equifinality holds that superior organizational performance can be achieved through a variety of different strategies (e.g., Gresov & Drazin, 1977; Hrebiniak & Joyce, 1985; Katz & Kahn, 1978; Venkatraman, 1990) and that overall firm performance is less dependent upon a specific strategy than how it is implemented. Equifinality thus implies that strategy choice (Child 1972), or flexibility, is available to organization designers when creating organizations to achieve high performance. As HR policies for the marketing function are thought to be critical components of strategy implementation, it then stands to reason that superior performance is contingent upon how well these policies are aligned with the requirements of a specific strategy. Thus, the concept of equifinality holds that each of those four groups of fit firms described above has an equal chance of generating high overall performance scores. As such, we predict that there will be no significant difference in overall firm performance between groups of fit firms.

3. The Study

To test these propositions, we developed a questionnaire that sought information on five specific topics at the business unit level: 1) How important are HR policies for the marketing function in terms of employee *Selection*, *Training*, and *Appraisal*? 2) To what level have the following *Compensation Strategy items*: *salary, benefits, incentives, compensation compared to competitors, shared risk, internal consistency, merit-based pay, job-based pay, and long-term pay* been adopted? 3) Which overarching business strategy has been adopted? 4) Which overarching marketing strategy has been adopted? 5) What is the overall performance of the firm (or business unit) over the past three years? When filling out the survey, we asked each participant to consider either the largest business unit or the one they were most familiar with.

We purchased a mailing list of 1,250 senior marketing managers in service and manufacturing firms across the country with at least 500 employees. In collecting the data, we followed Huber and Power's (1985) guidelines on how to obtain high-quality data from key informants. We selected senior marketing managers as key informants because they should be knowledgeable about HR policies for marketing personnel. In a pre-test, we randomly selected 30 names from our list and sent them a personal letter providing a brief explanation of the study along with a questionnaire and a postage-paid return envelope. In this trial, we asked participants to identify their respective companies and its financial performance over the past five years. Although we promised anonymity, we received back zero responses.

We subsequently modified the questionnaire. We no longer asked for a respondent's company or division to be identified and rather than ask for hard financial data we asked for a respondent's opinions on three questions pertaining to overall performance for the past three years. To enhance confidence in these subjective responses we also included a postage paid, pre-addressed, return postcard with the same overall performance questions and requested that an executive with access to firm or divisional performance data fill this out independently. We asked each respondent to create a four-digit code and affix that code to both the questionnaire and the separate firm-performance post card.

Questionnaires were sent out to the remaining 1,220 unused addresses. Four weeks later a second mailing was sent to these same addresses. From these two mailings, we received back 256 responses. Sixty-six of those were deemed unusable because they were only partially filled out, were not accompanied by a performance verification post card, or had reported overall performance scores that were inconsistent with those reported on the performance verification post card (i.e., greater than +/- .333). This left us with a set of 190 questionnaires, which equates to a respectable 15.6% response rate. Of these 190 responses, eleven respondents identified their firm or business unit as following a Reactor competitive strategy – in other words, their firm or division was not at that time consciously pursuing a proactive business strategy. These reduced useable responses to 179, which equates to a 14.7% response rate. Finally, we also received back 74 undeliverable envelopes, which brings our final response rate back up to 15.6%, which is well above minimal thresholds for management studies. Of the 179 supplemental firm performance surveys that were returned and deemed usable, 159 (89%) were completed by Vice Presidents, Directors, Presidents, CEOs or other executive-level individuals. These secondary respondents averaged 18.5 years in their current positions and 23.3 years in their respective industries.

3.1 Description of the Measures

Business and marketing strategy types were assessed using the self-typing paragraph approach commonly used in both strategic management and marketing strategy research (e.g., McDaniel & Kolari, 1987; McKee, Varadarajan, & Pride, 1989; Vorhies & Morgan, 2003, Olson, Slater & Hult, 2005). Several studies (Conant, Mokwa, & Varadarajan, 1990; James & Hatten, 1995; Shortell & Zajac, 1990) have demonstrated that this is a valid measurement approach. We used the descriptions from Slater and Olson's (2000) work for business strategy and descriptions from Slater and Olson's (2001) work for marketing strategy type.

Overall firm performance should be viewed in the context of the firm's objectives, strategy, and market structure. We followed the lead of marketing strategy researchers (e.g., Jaworski & Kohli, 1993; Olson, Walker, & Ruekert, 1995; Olson, Slater, & Hult, 2005) and used a global measure of firm performance. We used overall firm performance (i.e., level to which a firm met expectations, exceeded major competitors, and satisfied top management) because of its relevance despite the nature of contextual influences.

Measures of *Selection, Training,* and *Appraisal* were adopted from Snell and Dean's (1992) work, and focus on the comparative importance firms place on these processes. In contrast, measures of *Compensation* were adopted from Balkin and Gomez-Mejia's (1990) work, which considered eight specific policy measures within three separate HR-responsibility dimensions. These consist of: Dimension 1) Pay Package Design which includes salary, benefit, and incentive policies; Dimension 2) Market Positioning which includes pay relative to competitors; and Dimension 3) Pay Policy Choices which include risk sharing, internal pay consistency, pay-for-performance, job-based-pay, and long-term pay.

HR policy importance or adoption-level measures were assessed on 5-point Likert scales with 1 = Strongly Disagree and 5 = Strongly Agree. Performance measures were also assessed on 5-point Likert scales with 1 = performance well below competitors and 5 = performance well above competitors. Although widely used in management research, the inherent weakness of perceptual measures is recognized. Given the lack of responses from the pre-test we concluded there was no other practical way to acquire firm-level performance data. We further recognize that we are only looking at correlations between HR policies for the marketing function and overall firm performance.

3.2 Measurement Purification

We assessed the reliability of each set of topic-specific scales via Cronbach's alpha. All eleven construct measures demonstrated scores of .7 or greater. We then submitted the collective set of responses to a Varimax rotated Factor Analysis. This generated a nine-factor solution comprised of Eigen values greater than 1.0, which explained 71% of the variance. Factor One is defined as *Selection and Training Importance* as these two constructs were highly correlated. Factor Two is *Long-Term Pay*. Factor Three is defined as *Salary and Benefits* as these two constructs were highly correlated. Factor Four is defined as *Merit Pay and Market Pay*. Factor Five is defined as *Appraisal*. Factor Six is defined as *Risk.* Factor Seven is defined as *Internal Compensation Consistency.* Factor Eight is defined as *Job-Based Pay*. Factor Nine is defined as *Incentives*.

4. Findings and Conclusions:

4.1 Comparison of HR Policies for the Marketing Function by Strategy Type

Table 3 demonstrates that all twelve of the HR policies for the Marketing Function included in this study varied significantly (.011 or greater) between groups of firms that adopted one of the four alternative business strategies considered in this study. Highly consistent with our predictions, Prospector firms scored the highest on *Selection, Training, Appraisal, Benefits, Market Pay, Risk,* and *Long-Term Compensation*. Prospectors scored the lowest on *Internal Pay Equity*. In sharp contrast, but as predicted, Low Cost Defender firms scored the lowest on *Selection, Training, Appraisal, Salary, Benefits, Market Pay, Risk, Merit Pay,* and *Long-Term Pay.* As predicted, these firms scored high on *Job-Based Pay*. Counter to expectations, Low Cost Defenders scored moderately high on *Incentives*. Differentiated Defender firms scored highest on *Job-Based Pay* and *Internal Equity* and lowest on *Incentives*. Analyzers scored the highest on *Incentives* and the lowest on *Job-Based Pay*. Analyzers and Differentiated Defenders typically occupy the middle ground between Prospectors and Low Cost Defenders with Analyzers demonstrating significantly higher scores on *Incentives, Risk* and *Long-Term Pay* and Differentiated Defenders demonstrating significantly higher scores on *Salary, Internal Equity,* and *Job-Based Pay*.

Insert Table 3 About Here

4.2 Comparison of Fit v. Misfit Firms Within Business Strategy Types

Table 4 demonstrates that out of 48 comparison-of-means tests between groups of fit and misfit firms, 31 demonstrated significant differences in the predicted direction and six others, as predicted, demonstrated no significant differences (Table 2).

Prospector firms that adopted an Aggressive Marketer marketing strategy (Fit) demonstrated significantly higher average scores for *Selection* (.000), *Training* (.000), *Appraisal* (.002), *Salary* (.001), *Benefits* (.004), *Incentives* (.000), *Market Pay* (.000), *Risk* (.000), *Merit Pay* (.000), and *Long-Term Compensation* (.000) when compared to firms that adopted one of the three misfit options. Additionally, these scores were higher than the scores reported by fit firms for any of the other three business strategy types. The mean scores for all but one of these measures were either above 4.0 or within a rounding error of 4.0 except for *Market Pay*. So, as predicted, fit Prospector firms place significantly great importance on the marketing function and spend considerable resources selecting, training, and appraising marketing employees than do misfit firms. Salary, benefits, and incentives are also comparatively high and their overall reported compensation is higher than comparable positions in firms that have adopted any of the other three business strategies.

Fit Prospector firms also reported the only significantly lower score (.021) across all strategy types when compared against their misfit counterparts on the measure of *Job-Based Pay*. These same firms also reported the lowest score on *Internal Compensation Consistency*, though the difference between fit and misfit Prospector firms was not statistically significant.

From this we conclude that marketing employees within these firms take on comparatively high levels of risk as they are measured heavily on merit, and due to the lengthy process of developing new-to-the-world products the success or failure of their efforts may not be apparent for a considerable length of time (e.g., Olson, Walker, & Ruekert 1995). Management within these firms encourages internal competition and rewards those who achieve regardless of seniority.

Analyzer firms that adopted a Mass Marketing marketing strategy (Fit) demonstrated significantly higher average scores for *Selection* (.000), *Training* (.012), *Appraisal* (.000), *Salary* (.044), *Benefits* (.020), *Incentives* (.004), *Market Pay* (.003), *Risk* (.000), *Merit* (.000), and *Long-Term Compensation* (.002) when compared to firms that adopted one of the three misfit options. Like their Prospector counterparts, these firms scored comparatively high on *Selection*, *Appraisal*, *Incentives*, *Risk*, and *Merit-Pay*. However, their scores on *Training* and *Long-Term Pay* were significantly lower than those for fit Prospector firms while their scores for *Internal Compensation Equity* were significantly higher. Fit Analyzer firms scored higher on seven of twelve measures than did fit Low Cost Defenders and on three of twelve measures than did fit Differentiated Defenders.

With Low Cost Defender firms focused on cost control, we did not expect to see significant difference in HR policies for the marketing function with the exception of *Job-Based Pay* (.000). We assumed the reduced importance of marketing in all firms following this business strategy would translate to an overall reduction of importance for all but that one HR policy for the marketing function. Counter to our prediction, fit Low Cost Defender firms demonstrated significantly higher scores for *Selection* (.000), *Training* (.007), *Incentives* (.074), *Market Pay* (.05), and *Merit Pay* (.000), when compared to firms that adopted one of the three misfit options.

Nevertheless, the mean scores for nine of the twelve HR measures for the marketing function within fit Low Cost Defender firms were lower than 3.5 with five of these below 3.0. Thus, we interpret these scores to indicate that the importance of these policies for Low Cost Defenders to be moderate at best. Only *Merit Pay*, *Job-Based Pay*, and *Incentives* registered above 3.5 mean scores. Of these three policy issues, fit Low Cost Defender firms demonstrated the highest overall scores for *Job-Based Pay* and the lowest for *Merit Pay* across all firms. We interpret this to mean that marketing employees within these firms are primarily evaluated on seniority and/or the degree to which they carry out specific tasks rather than outcome-based financial performance measures. However, there is an element of risk among these firms as incentives are fairly-high, suggesting something of a commission basis for compensation which would be consistent with merit pay. We note the apparent inconsistency of these two positions.

Finally, Differentiated Defenders firms that adopted a Value Marketing marketing strategy (Fit) demonstrated significantly higher average scores for *Selection* (.000), *Training* (.000), *Appraisal* (.012), *Salary* (.000), *Benefits* (.001), *Market Pay* (.006), *Internal Compensation Consistency* (.012), *Merit* (.009), *Job-Based Pay* (.000), and *Long-Term Pay* (.022) when compared to firms that adopted one of the three misfit options. Fit Differentiated Defender firms scored the highest of any group on *Salary* and *Internal Compensation Equity*. They also scored only marginally lower on *Job-Based Payment* than did fit Low Cost Defenders and only marginally lower than fit Prospectors on *Selection*, *Trainin*g, and *Benefits*. In sharp contrast, fit Differentiated Defender firms scored the lowest of any strategy type with regards to *Incentives*. With regards to *Long-Term Compensation*, they scored significantly lower than either fit Prospector or Analyzer firms but significantly higher than fit Low Cost Defender firms. These findings reinforce the idea that marketing departments within fit Differentiated Defender firms are primarily focused on providing their existing customer base with excellent service and/or products and that the objective is to develop and maintain relationships over extended periods of time. Thus, these firm deemphasize quick sales and short-term incentives. This results in significantly longer-term payouts than found in fit Low Cost Defender firms but shorter than for either fit Prospector or Analyzer firms.

<u>Insert Table 4 About Here</u>

4.3 Overall Firm Performance / Equifinality

Table 5 demonstrates that Overall Firm Performance is significantly higher (.000) within fit firms than misfit firms under all four business strategies, thus supporting our prediction.

<u>Insert Table 5 About Here</u>

Table 6 demonstrates that no significant difference in overall firm performance scores exist between groups pursing alternative business strategies (F=.881; Sig. .452). Table 7 demonstrates that no significant difference in overall firm performance scores exist between groups of fit firms pursing alternative business strategies (F=.168; Sig. .918). Thus, we believe this data set confirms the existence of equifinality.

<u>Insert Tables 6 & 7 About Here</u>

<u>4.4 Limitations</u>

While we have adopted a standard research design, we recognize several inherent limitations within our study. First, our findings are not generalizable to firms employing less than 500 people. Second, cross-sectional survey research prohibits us from making causal inferences. Third, we recognize the shortcomings with self-report performance data as it lacks precision and the ability to objectively verify performance measures. To this last limitation, we attempted to mitigate the inherent bias in single respondent reports by seeking a second subjective performance measure from an executive or senior manager familiar with the business unit under study. Again, we recognize the shortcomings of this approach but conclude that matching objective firm (or division-level) performance data with HR-marketing operational policies for identified firms in sufficient numbers to run statistical analyses is highly problematic.

5.Suggestsions for Future Research and Conclusions

Our study is one of the few (e.g., Walker and Ruekert, 1987; Olson, 1994; Olson, Walker and Ruekert, 1995; Olson, Walker, Ruekert, and Bonner, 2001) that looks at how marketing interacts with other functional departments. Building upon this work, we believe additional insights for marketing managers and academics alike could be had by examining the policies included in this study in an examination of HR policies for sales managers and personnel. We note that *Merit* and *Job-Based* compensation scores did not tend to off-set one another. In other words, when high scores for one or the other of these measures appeared within fit companies pursuing a specific strategy (e.g., Low Cost Defender) we anticipated that the other measure would be low. But such was not always the case. We wonder if, for example, within Low Cost Defender firms that marketing personnel might be chiefly evaluated on tenure (i.e., *Job-Based*) where sales persons might be chiefly evaluated and compensated on sales (i.e., *Merit-Based*).

Despite these limitations, we believe our findings are in line with those of other researchers who have examined the relationship between Human Resource policies and business strategy (e.g., Balkin & Gomez-Mejia, 1990; Snell & Dean, 1992; Wright, Dunford, & Snell, 2001; Wright, McMahan, & McWilliams, 1994) and those who have examined marketing's role in the implementation of business strategies (e.g., Conant, Mokwa, & Varadarajan, 1990; Matsuno & Mentzer, 2000; McDaniel & Kolari, 1987; McKee, Varadarajan, & Pride, 1989, Olson, Slater, & Hult, 2005; Slater & Narver, 1993; Slater & Olson, 2000, 2001, 2002; Varadarajan & Clark, 1994; Vorhies & Morgan, 2003, 2005; Slater, Hult, & Olson, 2007; Walker & Ruekert, 1987). Thus, we are comfortable recommending that marketing and HR managers incorporate our findings into the processes they use to select, train, assess, and compensate marketing personnel.

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Appendix: Measures

SELECTION (Snell and Dean, 1992) (Cronbach α=.854)

1. It is very important to select the best person for a marketing managerial job.

2. The process for selecting marketing managers is very important.

3. The selection process for marketing managers is very extensive.

TRAINING (Snell and Dean, 1992) (Cronbach α=.860)

1. Training is extensive for members of our marketing department.

2. A high priority is placed on training marketing employees.

3. Training processes for our marketing employees are formal and structured.

APPRAISAL (Snell and Dean, 1992) (Cronbach α=.793)

1. We put a great deal of effort into assessing managerial performance.

2. Managers in the marketing organization participate in goal setting and appraisal.

3. When performance is discussed with middle managers, much emphasis is placed on professional development.

COMPENSATION (Balkin and Gomez-Mejia, 1990)

Salary (Cronbach α=.783)

1. Base salary is an important part of the total compensation package for middle managers.

2. Base salaries are high relative to other forms of pay that an employee may receive in the marketing organization.

Benefits (Cronbach α=.758)

1. Benefits are an important part of the total compensation package for middle managers.

2. The benefits package for middle managers is very generous compared to what it could be.

Incentives (Cronbach α=.729)

1. Pay incentives such as bonus or profit-sharing are an important part of the compensation package for middle managers in the marketing organization.

2. Pay incentives are designed to provide a significant amount of a middle manager's total earnings in the marketing organization.

Pay Relative to Competitors (Cronbach α=.756) (Market Pay)

1. Middle managers' salaries in the marketing organization are high relative to competitors.

2. Benefits for middle managers in the marketing organization are generous compared to competitors.

Internal Compensation Consistency (Cronbach α=.732) (Equity)

1. Internal pay equity is important goal of our compensation system.

2. We try hard to achieve comparable pay relationships across different parts of the marketing organization.

3. In this marketing organization, we give a higher priority to internal pay equity than we do to external market factors.

Risk Sharing (Cronbach α=.810) (Risk)

1. In the marketing organization, a portion of a middle manager's earnings is contingent on group or organization performance goals being achieved.

2. We designed our compensation system so that a portion of our compensation costs is variable.

3. We believe that employees should be risk takers with some of their pay.

Pay-for-Performance (Cronbach α=.749) (Merit)

1. We have a strong commitment to a merit pay system.

2. In this organization, pay raises are determined mainly by an employee's job performance.

3. Employees seniority does not enter into pay decisions.

Job-Based Pay (Cronbach α=.751) (Job)

1. We have a job-based pay system, factors within the job are key determinants of pay level.

2. We have a skill-based pay system. Individuals are rewarded in part on their mastery of job skills.

Long-Term Pay (Cronbach α=.862) (Long-term)

1. The pay system in this organization has a futuristic (2 or more years) orientation to focus attention on long-term goals.

2. The pay system in this marketing organization primarily rewards employees for shortterm accomplishments. (R)

3. Our pay policies recognize that long-term results are more important than short-term results.

Overall Firm Performance (Cronbach α=.796)

1. The overall performance of the business met expectations last year.

2. The overall performance of the business last year exceeded that of our major competitors.

3. Top management was very satisfied with the overall performance of the business last year.

Business Strategy Types (Based on Slater and Olson 2000).

Prospectors: These businesses are frequently the first-to-market with new products or services. They do not hesitate to enter new market segments where there appears to be an opportunity. These businesses concentrate on offering products that push performance boundaries. Their proposition is an offer of the most innovative product, whether based on substantial performance improvement or cost reduction.

Analyzers: These businesses are seldom first-in with new products or services or to enter emerging market segments. However, by monitoring market activity, they can be early-followers with a better targeting strategy, increased customer benefits, or lower total costs.

Low Cost Defenders: These businesses attempt to maintain a relatively stable domain by aggressively protecting their product-market position. They rarely are at the forefront of product or service development. Instead, they focus on producing goods or services as efficiently as possible. These businesses generally focus on increasing share in existing markets by providing products or services at the best prices.

Differentiated Defenders: These businesses attempt to maintain a relatively stable domain by aggressively protecting their product-market position. They rarely are at the forefront of product or service development. Instead, they focus on providing superior service and/or product quality. Their prices are typically higher than the industry average.

Reactors: These businesses do not seem to have a consistent product-market strategy. They primarily act in response to competitive or other market pressures in the short-term.

Marketing Strategy Types (Based on Slater and Olson 2001)

***Aggressive Marketers*:** We typically sell high quality, new-to-the-world products at premium prices through select distribution channels. We retain an internal sales force, invest heavily in advertising and marketing support functions.

Mass Marketers: We typically sell a broad line of products that feature unique improvements over first generation products at competitive prices through an intensive distribution network and an internal sales force.

Marketing Minimizers: We typically sell basic products which may be commodity like in nature at highly competitive prices. We provide few if any additional services, do not invest heavily in marketing activities and may rely upon independent reps to sell our products.

***Value Marketers**:* We typically sell stable lines of products that evolve over time at moderate to comparatively high prices through selective distribution channels with an internal sales force.

We invest in advertising and marketing support functions at a moderate level.