

THE IMPACT OF MARKETING CAPABILITY AND DIVERSIFICATION STRATEGY ON PERFORMANCE.

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Abstract:

This paper examines the impact of marketing capability and diversification strategy on the performance of organization. A survey design with a well structured questionnaire was adopted in collecting data from the respondents and thereafter, the data was analyzed using descriptive analyses on statistical package for social science (SPSS). The results above indicate that there exists a significant relationship between marketing capability and organizational performance, while also proving the fact that diversification have a significantly strong impact on the performance of an organization.

Keywords: Marketing capability, diversification strategy, Resources based view, performance

1. INTRODUCTION

Marketing can be viewed as a means of determining the needs of the consumers, and the offering of a consumer's exclusive worth. It was suggested by Porter (1985) that the distribution of goods and services are jointly assisted by all business functional aspect; however, marketing plays a key role in providing the essential worth of the goods to the consumers. There have been numerous research that have looked at the incorporation of marketing as a key element in organizational performance (Balasubramanian & Bhardwaj, 2004; Ho & Zheng, 2004; Malhotra & Sharma, 2002; Sawhney & Piper, 2002) in which there is a wide belief among management of organization that the key role of marketing is very essential to the continued growth and profitability of any organization (Wind, 2005).

The term 'diversification strategy', on the other hand, could be seen as an entrance into a related or an unrelated business or the entrant into a new geographical market which brings about a long term leadership position and a competitive advantage to the organization in the long run (Hoopes, 1999; Goerzen & Beamish, 2003; Nachum, 2004; Narasimhan & Kim, 2002). There have been wide studies of strategic management literature on the expenses and relevance of diversification strategy on organization, and how it helps and organization in gaining competitive advantage (Chakrabarti, Singh, & Mahmood, 2007; Palich, Cradinal, & Miller, 2000; Ramanujam & Varadarajan, 1989).

Specific focus on the effect of product/service diversification has been extensively studied by researchers in which they looked at it from different lines of business (Berger & Ofek, 1995; Bettis & Mahajan, 1985), whereas international diversification and geographical diversification have been looked into from different market (Fang, Wade, Delios, & Beamish, 2007; Ghoshal, 1987; Kim, Hwang, & Burgers, 1993). It was suggested by Hitt, Hoskisson and Kim (1977) that for an organization to cope with the different kinds of diversification, it all boils down to their capacity to cross function and coordinate their activities. There has been a general acceptance that the ability of an organization to link their numerous internal functions together is very important for the 'curvilinear effects' of diversification on its performance (Narasimhan & Kim, 2002; Palich et al., 2000).

It is glaring from the statement above that there exist a significant impact of functional capabilities (marketing) and diversification strategies (product/service and international diversification) on the performance of an organization. But to the best of our understanding, it has been noticed that extensive research has not been carried out to study the virtual impact of each of these elements on organizational performance. It is thus imperative for us to carefully examine and understand the nature of the relationship between marketing capability and diversification strategy (product/service and international) on the financial performance of an organization.

Capabilities by Day (1990:38) are roughly defined as "complex bundle of skills and accumulated knowledge that enable firms (or strategic business units—SBU) to coordinate activities and make use of their assets". The resource-based view (RBV) has been used as a theoretical background to study the manner in which organization's resources and capabilities influences the financial performance of an organization (Wernefelt, 1984). It was suggested by the RBV that all organizations have a distinct component of resources and capabilities which helps in giving them a commanding financial performance and competitive advantage over others (Song, Benedetto, & Nason 2007). It is the ability of the organization to transform those resources and capabilities into a valuable and difficult to imitate capabilities that makes the difference between the financial superiority performance and others in the industry (Liebermann & Dhawan, 2005).

Efficiency according to Liebermann & Dhawan (2005) is defined as the ratio of a firm's output to that of its input which is measured in terms of the maximum feasible output that can be obtained with a given set of inputs. Thus, the second objective of this research is how an organization efficiently transforms its resources into financial output while also controlling the relationship between marketing capability and diversification strategy in gaining general business performance.

The sections that follow in this paper include the literature review which discusses the RBV framework and the conceptualization of marketing capability and diversification strategy. The preceding section after that deals with the methodology and the data used for this study which is followed immediately by the analyses and the findings. The final section highlights the implication of the study to management, limitations and recommendations for further research.

2. LITERATURE REVIEW

2.1. Resource-based view (RBV)

An organization is viewed by the RBV as a collection of resources and capabilities (Wernerfelt, 1984), Resources by Amit and Schoemaker (1993) can be defined as "stocks of available factors that are owned or controlled by the firm". Resources can be classified into two components which are the tangible components (financial and physical asset e.g property, plant and equipment) and the intangible components (human capital, patent, technology knowhow) (Grant, 1991; Amit & Schoemaker, 1993). Capability on the other hand can be defined as ability of an organization in effectively utilizing its resources to achieve a desired goal (Amit & Schoemaker, 1993). Capability can be seen as a middle approach which is adopted by the organization in which they make use of organizational processes in delivering improved productivity to its resources (Amit &Schoemaker, 1993). Capabilities can be in form of invisible assets which could come as tangible or intangible organizational procedures which are developed by an organization over a period of time and in which case cannot be bought but built (Teece, Pisano, & Shuen, 1997).

It was maintained by the RBV that there will be diverse nature of resources and changing ranks for different organizations and the survival of an organization hinge on its capacity of establishing new resources, improving on its already established capabilities and building on its capabilities uniqueness in order to achieve competitive advantage (Day & Wensley, 1988; Peteraf, 1993; Prahalad & Hamel, 1990). It is therefore worthy to note that the ordinary control of greater resources is not enough for an organization in achieving competitive advantage; rather it is how an organization organizes its scarce resources and utilizes its capabilities to the utmost use that helps in achieving competitive advantage (Peteraf, 1993; Song et al., 2007).

Marketing literature have studied the wide use of RBV context in examining organizational performance (Dutta, Narasimhan, & Surendra, 1999; Liebermann & Dhawan, 2005), to understand the interaction between marketing and other functional capabilities and their effect on performance (Song et al., 2007; Song, Droge, Hanvanich, & Calantone, 2005; Song, Nason, & Benedetto, 2008), and particularly to understand inter-organizational relationship performance (Palmatier, Dant, & Grewal, 2007). Results of these literatures generated a significant relationship between capabilities and organizational performance. Studies of strategic management have adopted the RBV framework to comprehend the modification in inter organizational performance (Barney, 1986; Peteraf, 1993; Makadok, 2001). Furthermore, it was proposed by the RBV theory that the reason for the differences in the performance of organizations is because of the differences in the ownership of resources that generates different productivity (Makadok, 2001). Looking at the definition of organizational capability by Dutta et al

(1999:45) as "the ability to deploy resources (inputs) available to it to achieve the desired (outputs)", we therefore use adopted the input-output context to fathom the ideal transformation of an organization's resources to its goals.

2.2 Resources, Capabilities, Diversification and Performance

Our theoretical framework reflect on the way by which an organization go by in taking advantage of its serious capabilities in market, while also looking at the diversification strategy in order to be at a competitive advantage over others. Looking from the angle of the RBV which argues that an organization looks to diversify with the aim of encompassing its resources to new markets and businesses, they achieve economies of scale by maintaining a low operational cost, and have greater business efficiency through common fixed asset which include production facilities, distribution channels, and brand names. All these can be achieved in the diversification within the range of their resources and capabilities (Hitt et al., 1997). The term marketing capabilities could include the combination of all marketing associated actions of an organization that adopts greater market awareness from customers and competitions. Day (1994) proposed that "every organization develops its own configuration of capabilities" in accordance with their environment, thereby making it impossible to reckon all the likely capabilities. Following this proposition, we limited ourselves to the most important functional capability (marketing) and look at how the combination with diversification strategy impacts the performance of and organization.

2.3 Marketing capability

Marketing capability as earlier defined is the process by which the tangible and intangible resources are adequately used to comprehend the complex precise needs of the consumers, while achieving a differentiation product that is distinct from competitors and also achieving greater brand equity and quality (Day, 1994; Dutta et al., 1999; Song, Benedetto et al., 2007; Song, Droge et al., 2005). The marketing capability of an organization improves when there exist the combination of separate skills and understanding of the employees moving on the same page with the existing resources (Vorhies & Morgan, 2005). An organization can improve their ability to detect a market by spending more resources on the interaction with customers (Narsimhan et al., 2006). Immediately such capabilities are developed, it becomes difficult for competing organizations to emulate them (Day, 1994). This makes marketing capability to be a very important element for an organization in gaining competitive advantage.

Marketing discipline have actively studied the impact of a market-driven organization on the performance of such organization (Song et al., 2008), and as such advocates that marketing capability is important in helping an organization build and maintain a strong relationship with their customers and channel members. The term marketing capability helps to build a brand image that is solid for the organization thereby making them achieve greater performance (Ortega & Villaverde, 2008). It was suggested by extant research that the transformation of resources into outputs are done by capabilities which are based on the marketing mix strategies and in turn are associated with organizational performance (Vorhies & Morgan, 2003, 2005). Looking at the above discussion, it is therefore hypothesize that:

H_1: There is significant relationship between marketing capability and organizational performance.

2.4 Diversification Strategy and Performance

Diversification can be defined as the process by which an organization enters new line of business activity through internal business development or acquisition (Ramanujam & Varadarajan; 1989). There have been extant reason why organizations diversify, what it will cost to diversify, the period in which diversification can improve organizational performance, and the period in which it is detrimental to organizational performance (Chakrabarti et al., 2007; Montgomery, 1994; Ramanujam & Varadarajan, 1989). The main reasons why organizations diversify are because of proposed profit that is looked forward to in the greater target market, ability to effectively use the idle productive capacity, advantage of the reduction of risk by entering into collection of business, and the ability to build-up and develop their capability.

Theoretically, there should be a positive influence of diversification on organizational performance due to the fact that it allows an organization to achieve economies of scale, ability to reach more markets, and the skill to influence the experience that have been gathered on other markets (Rumelt, 1974). Nevertheless, there has been a different result on the influence of diversification on organizational performance through pragmatic studies. It was believed by Montgomery and Wernerfelt (1998) that the term diversification has a negative impact on performance because it brings about increase in the cost of operation, generates organizational conflict in the sense of managerial and organizational complexities and also discourages organizations in reacting to key external changes (Chakrabarti et al., 2007; Grant, Jammine, & Thomas, 1988).

There have been studies on the effect of product/service diversification (Berger & Ofek, 1995; Bettis & Mahajan, 1985), and international diversification (Ghoshal, 1987; Kim et al., 1993) on organizational performance. Product/service diversification can be categorized into two which include the related and unrelated category. Example of the related product/service diversification includes organizations that offer a complete supply chain management solution, and coordinating the flow of information and goods between suppliers, manufacturers, retailers and customers. They help in the warehousing, distribution and inventory management solution, and act as an integrated partner to client organizations while unrelated product/service diversification include organization that transport consumer goods like food. They also offer specialized insurance services, export, import and customs clearance services. International diversification likewise can be divided into related and unrelated geographical markets.

There was a proposition by the RBV that diversification brings about and improves organizational performance if there exist an erratic, appreciated and unique resources among partners (Prahalad & Hamel, 1990). Consequently, the related diversification helps in developing organizational performance by efficiently utilizing resources and capabilities, while unrelated diversification on the other hand surpasses the utilization of resources, while also outshining management capabilities thereby bringing about harm to organizational performance (Tallman & Li, 1996). Past research are of the opinion that the relationship between diversification and organizational performance are of a two way process (both negative and positive according to framework) and that the relationship cannot be categorized as a undeviating function, but rather, it is seen as a U shaped curvilinear (Datta, Rajagopalan, & Rasheed, 1991; Geringer, Tallman, & Olsen, 2000; Narasimhan & Kim, 2002). In this study however, attention is not shifted on the curvilinear impact because we are not looking at the point where the impact of diversification on organizational performance move from positive to negative or vice versa, we rather look at the impact of diversification on long term business performance, thus, proposing hypothesis 2 which says:

H_2: Diversification does not have a significant impact on organizational performance.

3. METHODOLOGY

A survey design was adopted to examine the impact of marketing capability and diversification strategy on organizational performance in Nigeria. This study also follows a regression research strategy and helps in looking at the effect of the independent variables to the dependent variable, thus justifying the use of survey research. Data was generated from respondents of manufacturing firms in Nigeria on a wide basis relating to marketing capability, diversification strategy and organizational performance.

The population adopted for this study included manufacturing firms in Nigeria, while the population sample was restricted to manufacturing firms based in Lagos, since there exist more than average percentage of Nigeria's manufacturing firm in Lagos State, thus making the state a good representation of manufacturing firms in Nigeria.

The field research assistants helped in administering the questionnaire on manufacturing firms in Lagos state. Firms in this state established the sample frame which was considered as a representative of the population from which the sample was drawn. The questionnaire targeted top managers and chief executives of the selected firms which were approached and persuaded to fill the questionnaire. Firms that did not participate were uninterested or hesitant to release information to the researcher, while others premised their refusal on the management policy in the organization.

The technique used in the selection of participating manufacturing firm was a simple random sampling technique in which a total of 150 copies of the questionnaire were distributed. 127 questionnaires were completely filled and returned. Sampling according to Saunders et al. (2003) can be defined as a part of the entire population carefully selected to represent that population, while Grochenig et al., (2010) defined random sampling as a strategy of choice for learning an unknown function in a given class of functions. The reason for using a random sampling technique was justified as it eliminates every possibility of a biased sample by the favorite of the individual giving the sample (Bordens and Abbott, 2002). It also justifies how necessary it is when one wants to apply research findings directly to a population. (Mook, 1983).

The units of analysis were constituted by the participating manufacturing firms, while the adoption of primary data method was justified as it is the quickest and simplest of the tools to use, if publication is the aim (Bain, 1995).

4. EMPERICAL RESULTS

4.1 variables and measures

4.1.1 Marketing capability

This study initiated four items using a five-point likert scale which ranged from strongly agree to strongly disagree to access questions on network resource combination. The results of the respondents rating on the five items were looked into, added up and averaged to generate the mean of competitive strategies. Competitive strategies is considered high if the index is equal to or greater than 5.0 while it is considered low if less than 5.0. The Cronbach alpha of the items was calculated to be 0.87 suggesting that the items are highly reliable.

4.1.2 Diversification strategy

This study initiated four items using a five-point likert scale which ranged from strongly agree to strongly disagree to access questions on network resource combination. The results of the respondents rating on the five items were looked into, added up and averaged to generate the mean of technological capabilities. Technological capabilities is considered high if the index is equal to or greater than 5.0 while it is considered low if less than 5.0. The Cronbach alpha of the items was calculated to be 0.87 suggesting that the items are highly reliable.

4.1.3 Organizational performance

A five-point point likert scale of 4 items was also generated for firm performance. The scales ranged from strongly agree to strongly disagree. The result of the items were added and averaged to determine the mean index. Organizational performance is considered high if the index is equal to or greater than 5.0 while it is considered low if less than 5.0. The Cronbach alpha of the items was calculated to be 0.87 suggesting that the items are highly reliable.

4.2 ANALYTICAL TOOLS AND HYPOTHESES TESTS AND RESULTS

To study the intentions of this study, and develop an important connotation to the data generated, the data gathered were analyzed using statistical package for social sciences (SPSS) as well as the following descriptive and inferential statistical techniques.

Mean frequencies and percentages which are descriptive statistics were engaged to determine the demographic attributes of the respondents. These statistics however were not meant to tackle the research hypotheses, but rather to summarize the characteristics of the sample size. Simon (2002).

In testing for the effect of marketing capability and diversification strategy on organizational performance, the amount of variations in the dependent variable (organizational performance) which can be associated with the changes in the value of the independent variables (marketing capability and diversification strategy) is being tested using regression analysis.

Table 1 revealed that many of the respondents were male which constituted 70.1% of the total respondents. Respondents who were less than 30 years were calculated at 25.2%, while those who were above 29 years, but below 40 years were calculated as 33.9%, those who were above 39 years but below 50 years were summed up at 25.2%, while those above 49 years of age stood at 15.7% of the entire sample size.

The marital status of the respondents revealed that many respondents were married at 53.5%, which was followed by those with marital problems at 26%, the single respondents had a low percentage at 20.5%.

The table also revealed that 30.7% of the respondents are in the production department, while a percentage of 33.9% of the respondents can be found in the marketing department. The finance department consists of 19.7% of the respondents, while minorities of 15.7% of the respondents are in other departments not listed in the questionnaire.

The table finally reveals that those with 2-4 years of experience are 35.4% of the respondents, those with 5-7 years experience stood at 29.1% of the respondents' wile those with above 7years of experience were estimated at 35.5%.

Table 1:

Demographic factors of the respondents

		Frequency	Percent%
Sex	Male	89	70.1
	Female	38	29.9
	Total	127	100.0
Age	20-29	32	25.2
	30-39	43	33.9
	40-49	32	25.2
	Above 49	20	15.7
	Total	127	100.0
Marital status	Single	26	20.5
	Married	68	53.5
	Others	33	26.0
	Total	100	100.0
Department	Production department	39	30.7
	Marketing department	43	33.9
	Finance department	25	19.7
	Others	20	15.7
	Total	127	100.0
Work experience	2-4 years	45	35.4
	5-7 years	37	29.1
	Above 7 years	45	35.5
	Total	127	100.0

4.2.1 HYPOTHESES TESTING

H_1: There is significant relationship between marketing capability and organizational performance.

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.705(a)	.496	.492	.85318

a Predictors: (Constant), my organization can convince a customer to buy its products

ANOVA(b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	89.719	1	89.719	123.254	.000(a)
	Residual	90.990	125	.728		
	Total	180.709	126			

a Predictors: (Constant), my organization can convince a customer to buy its products
b Dependent Variable: there has been a decrease in customer patronage over the years in my organization

Correlation Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	6.726	.222		30.302	.000
	my organization can convince a customer to buy its products	-1.098	.099	-.705	-11.102	.000

a Dependent Variable: there has been a decrease in customer patronage over the years in my organization

The relationship between marketing capability and organizational performance was investigated using regression analysis, one way anova and correlation analysis. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. The result indicated that the decision parameter which is b=.705 showing a strong significant relationship with organizational performance. It further revealed that the correlation coefficient which is R =.705. This implies that the relationship between the two variables is at 70.5% which is significantly strong. Thus Hypothesis 1 which states that there is significant relationship between marketing capability and organizational performance should be accepted.

H_2: Diversification does not have a significant impact on organizational performance.

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.705(a)	.496	.492	.85318

a Predictors: (Constant), my organization have alliance with other sectors in the economy

ANOVA(b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	89.719	1	89.719	123.254	.000(a)
	Residual	90.990	125	.728		
	Total	180.709	126			

a Predictors: (Constant), my organization have alliance with other sectors in the economy
b Dependent Variable: over the years, the sales growth of my organization have declined.

Correlation Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	6.726	.222		30.302	.000
	my organization have alliance with other sectors in the economy	-1.098	.099	-.705	-11.102	.000

a Dependent Variable: over the years, the sales growth of my organization have declined.

The impact of diversification strategy on organizational performance was investigated using regression analysis, one way anova and correlation analysis. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. The result indicated that the decision parameter which is b=.705 showing a strong significant effect organizational performance. It further revealed that the correlation coefficient which is R =.705. This implies that the relationship between the two variables is at 70.5% which is significantly strong. Thus Hypothesis 2 which states diversification does not have any significant effect on organizational performance should be rejected.

5. CONCLUSION AND IMPLICATION FOR MANAGEMENT

The results above indicate that there exists a significant relationship between marketing capability and organizational performance, while also proving the fact that diversification have a significantly strong impact on the performance of an organization. Thus, organizations are advised to put much resource on the marketing of its products so as to reach out to its target market, thereby increasing sales which automatically increase the profits of the organization while also improving its performance. It will also be worth of note for organizations to diversify their operation and business by entering to other sectors of the economy both locally and internationally. By doing this, they are assured of a large market, thereby becoming a force to reckon with.

5.1 LIMITATIONS AND FUTURE RESEARCH DIRECTION

It will be of note for future researchers to concentrate their effort on other sectors of the economy, while also studying the global effect of the topic on industries instead of particular emphasis being placed on Nigeria by the just concluded study.

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