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# **Marketing Capability, Strategy and Business Performance in Emerging Markets of Pakistan**

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## **Marketing Capability, Strategy and Business Performance in Emerging Markets of Pakistan**

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**Abstract:** *In this project an attempt has been made to demonstrate a positive relationship between marketing capabilities and Strategy using Porters framework and corporate performance in an emerging/developing market of Pakistan. This paper reports a study that marketing practice regulates the relationship between marketing capabilities & Strategy using Porters framework and business performance. In turn, the type of marketing practice adopted is moderated by the market served. Various studies have suggested that marketing capabilities & Strategy using Porters framework influences business performance. These discussions are summarized by a theoretical model and a series of theoretical propositions. The results suggest that Marketing Capabilities and Strategy frame exist in the business environment of Pakistan but there is a weak relationship with firm performance.*

### **1. Introduction**

Resource Based View identifies that firms are a collection of idiosyncratic resources which are strategic in nature and leveraging them effectively leads to better performance. These capabilities are strategic as they are unique, difficult to copy, are rare and are value creating. On the other hand the question that agitates the mind of practitioners and academics both is which of the distinctive capability or resource is most important in a given environment in terms of having the most impact on successful business performance. Since business environments differ it is logical to

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assume that the required capabilities for effective performance will differ too.

It has been also proposed in the strategy literature that strategies form the sources of competitive advantage. These strategies are implemented with a point of view of securing higher level of performance in a given business environment. Successful implementation of strategies requires the application of various capabilities. Once again it becomes interesting for business strategist to know, which capability is more significant in terms of its impact on any given strategy.

This paper contains a model to develop investigation and the combined effect of marketing capabilities & Strategy on business performance. This paper reports a study that there are multiple variables that are difficult to measure or are capable of being measured in alternative and possibly non-commensurate ways. By focusing to variables and the relationship between variables the argument can potentially descend into a discussion of definition and measurement. In this way the insight possible by an understanding of context can be lost in the detail of debate. In this paper we propose to consider these areas from an alternative methodological perspective. The study adopts a realist philosophical perspective.

## **2. Literature Review and Theoretical Framework**

For an organization to achieve consistently above-normal market performance, it must create a sustainable competitive advantage (SCA) (Acker 1989:91; Porter 1985:15). That is, it must create sustainable superior value for its customers. The logic of SCA is that for a buyer to purchase offering X, the buyer must perceive that the expected value to him of that offering (i.e., that proposed solution to his need) exceeds the expected value to him of any alternative solution. (For the analytical roots of SCA, see, Alderson 1957; Chamberlin 1933).

The desire to create superior value for customers and attain SCA drives a business to create and maintain the culture that will produce the necessary behaviors. Market orientation is the organization culture (i.e., culture and climate, Deshpande and Webster 1989) that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business (Acker 1988; Kohli and Jaworski 1990; Kotler 1977; Peters and Austin 1985; Peters and Waterman 1982; Shapiro 1988; Webster 1988).

To be aware of marketing capabilities, it is necessary to understand the foundation upon which capabilities are built. Marketing capabilities are developed when the firm's marketing employees frequently apply their knowledge and expertise (an intangible resource) to solving the firm's marketing problems. Often, in the way of solving these marketing problems, intangible resources are combined with tangible resources (assets). It is reported by May (1994) and Grant, (1991, 1996) that Marketing capabilities are not resources in and of themselves, but are the integrative processes by which resources are applied to add value to the resource inputs. From these repetitive efforts, complex outline of coordination between people, and between people and other resources occur (Grant, 1991, 1996). These coordinated patterns of behavior are often quite regular, yet they remain dynamic and change as the firm's needs change (Grant, 1991). One of the outstanding qualities of capabilities development is learning through replication (Grant, 1991; Prahalad and Hamel, 1990; Sinkula, 1994; Tuominen et al., 1997). By bringing people and resources together in continual efforts, firms develop the processes upon which capabilities are based.

Furthermore, as people continually apply their knowledge and skills to marketing problems, a deeper marketing knowledge base develops. When employees throughout the firm apply this deeper knowledge to solving marketing problems, the firm's marketing capabilities are improved (Slater and Narver, 1995; Tuominen et al., 1997). Finally, when value-adding, functional-level capabilities

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are incorporated across functional lines and are deployed across multiple product-markets to deliver competitive advantage, then a core capability has developed (Grant 1996).

According to different researchers marketing capabilities are defined as the integrative processes designed to apply the collective knowledge, skills, and resources of the firm to the market-related needs of the business, enabling the business to add value to its goods and services and meet competitive demands (Tuominen et al. 1997).

Since marketing processes are often business specific (Day 1994), unique marketing capabilities will develop as individuals combine their particular knowledge and skills with the resources available to them (Tuominen et al. 1997). Specifically other argued that the rival firms focusing on similar market needs may be expected to advance similar, but not identical marketing capabilities. When these value-adding capabilities cannot easily be copied by competitors, when one capability cannot be easily substituted for another capability, and when these capabilities cannot be easily transferred between rivals then the capability forms the basis for SCA (Grant, 1991, 1996; Moller and Anttila, 1987; Tuominen et al. 1997).

Moreover, superior capabilities in marketing give the firm the ability to generate and act on information about competitor actions and reactions. This process of generating knowledge and applying it in ways that support delivering superior customer value helps the firm develop the basis for a competitive advantage (Bharadwaj et al. 1993; Narver and Slater 1990; Tuominen et al. 1997; Woodruff 1997). If profitably focused through an suitable set of business strategies, a firm with superior marketing capabilities would be expected to achieve a competitive advantage resulting in better performance than its less competent competition (May 1993, 1994; Day and Wensley 1988; Kohli and Jaworski 1990; Narver and Slater 1990).

What marketing capabilities would have an impact and most important in term of its effect on firm performance in the business environment of Pakistan? This report investigates six marketing areas for evidence of capabilities.

The first part is market research and is defined as the set of processes needed to discover information about customer needs and broad market information, and design marketing programs to meet these needs and market conditions (Moller and Anttila, 1987). The second part is concerned with pricing and is defined as the processes needed to competitively price the firm's products and monitor prices in the market. The third part is product development. For a firm to have a capability in product development it is important to design products in reaction to customer needs, meet internal company goals and hurdles, and outperform competition in this key area (Moller and Anttila 1987). The fourth competence relevant to marketing is the management of the firm's channels of distribution. To have a capacity in channel management, relationships with distributors must be formed and effectively managed. To do this it is important to work strictly with channel members, build effective relationships with channel members, and to bring efficiencies to the channel. However promotion is fifth important capability for many firms. Promotion for this report was defined as advertising, sales promotions, and personal selling activities the firm uses to communicate with the market and sell the product. The last part in which business would be expected to have marketing capabilities is in the marketing management area.

In order to understand the marketing management capabilities we have to focus on customer acquisition management, the management of marketing programs, and the ability to coordinate action among the diverse elements in the firm needed to implement a marketing program (Moller and Anttila 1987).

### **3. Methodology**

It is necessary to first define the organizational performance construct first for a better idea about market-driven firm's performance, Organizational performance is a multidimensional construct, tapping financial, operational, and customer-related performance domains (Kaplan and Norton, 1992, 1993, 1996; Venkatraman and Ramanujam, 1986). According to Kaplan and Norton, (1992, 1993, 1996); Venkatraman, (1989) growth reflects performance trends in terms of sales and market share gains. Increase in sales and market share are important to a business to ensure long term viability and resource availability (Kaplan and Norton, 1992, 1993, 1996; Varadarajan, 1983). Profitability shows an efficiency view of current performance (Venkatraman, 1989). According to Hunt and Morgan, (1995) profitability is viewed as the ultimate organizational outcome and is commonly used in strategic marketing studies. Customer satisfaction May, (1990); Day and Wensley, (1988); Kaplan and Norton, 1992, 1993, 1996) represents the effectiveness of the organization in delivering value to its customers.

As sales growth and market share and the customer satisfaction are the variable come under the construct of Marketing domain and the profitability and the return on investment come under the construct of Financial domain so we take the average of BP2, BP3 and BP4 and name as MBP as Marketing Performance and average of BP5 and BP6 name as FBP as Financial Performance.

Performance was measured using six variables as follows:

Over all business performance (BP 1); Market share (BP 2); Sales Growth (BP 3); Customer satisfaction (BP 4); Profitability (BP 5); Return on Investment (BP 6).

The focus of this study is to understand the effect of marketing capabilities & Strategy on firm performance base on; literature survey three different predictors variables were identified for strategy using Porter's framework: Low Cost Leadership, Differentiation and Product Market Scope was operationalized

using 13 variables again using a Likert scale and six capabilities were selected following Vohries et al. (1999). The capabilities of Market Research capability (mr), Pricing capability (pr), product development capability (pd), channel management capability (cm), promotion management capability (pm), marketing management capability (mm) were each measured by four variables each. The survey questions were anchored using a 7 point Likert scale where “1” means Strongly Disagree and “7” means Strongly Agree.

A theoretical framework was developed that was inclusive of all the required dependant and independent variables. A hypothesis develop for testing data for testing the hypothesis was collected from 89 firms related to cross sectional industries of Pakistan, e.g. consumer goods, durables, textile, services, financial services and others.

#### **4. Data Analysis**

In the first stage, run descriptive statistics to gain initial insights. After this Regression Analysis was used to test the hypothesis that Marketing Capabilities and Strategy Frame and Firm’s Performance are associated and also determine relative impact.

Reliability measure showed high values, the Cronbach’s Alpha for this study for Marketing Capabilities as well as strategy frame construct exceed 0.70 for both dependent and independent variables.

We hypothesize the 3 strategies and 6 marketing capabilities has an impact/effect on Business Performance construct having three components BP1,MBP and FBP are conceptually closely related for a business to maximize its long-run profits.

The research questions that need to be answered therefore are:

1. Which marketing capability is the most important in terms of its effect on a firm’s performance in the business environment of Pakistan?



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2. Which Strategy using Porters framework is more significant in its impact on business performance in the environment of Pakistan?

*Hypothesis*

For the purpose of this study, based on the literature and the elaboration made in the above and following paragraphs, several hypotheses are made.

Formally stated this leads to hypothesis:

*Marketing Capabilities*

H1: Market-research capability (mr) has an impact on Firm's Performance.

H2: Pricing Capabilities (pr) has an impact on Firm's Performance.

H3: Product Development Capabilities (pd) effect on Firm's Performance.

H4: Channel Management Capabilities (cm) has an impact on Firm's Performance.

H5: Promotion Management Capabilities (pm) effect on Firm's Performance.

H6: Marketing Management Capabilities (mm) has an impact on Firm's Performance.

*Strategy Frame*

H7: Low-cost Leadership (ca) is more significant in its impact on Firm's Performance.

H8: Differentiation strategy (dfn) is more significant in its impact on Firm's Performance.

H9: Product Market Scope (pms) is more significant in its impact on Firm's Performance.

## **6. Results<sup>1</sup>**

### **Testing of H1 (MR)**

	<b>Overall (BP1)</b>	<b>Marketing (MBP)</b>	<b>Finance (FBP)</b>
R <sup>2</sup>	.281	.351	.124
Adjusted R <sup>2</sup>	.264	.328	.114
B	.716	.407	—

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<sup>1</sup> BP1 = Overall Business Performance, MBP = Business Performance (Marketing), FBP = Business Performance (Finance)

Sig.	.000	.000	.001
<b>Testing of H2 (PR)</b>			
R <sup>2</sup>	.204	.130	.145
Adjusted R <sup>2</sup>	.195	.120	.135
B		.227	
Sig.	.000	.001	.000
<b>Testing of H3 (PD)</b>			
R <sup>2</sup>	--	.060	--
Adjusted R <sup>2</sup>	--	.049	--
<b>B</b>		<b>.227</b>	
Sig.	--	.207	--
<b>Testing of H4 (CM)</b>			
R <sup>2</sup>	.365	.236	.182
Adjusted R <sup>2</sup>	.358	.227	.172
Sig.	.000	.000	.000
B	.741	.468	.519
<b>Testing of H4 (CM)</b>			
R <sup>2</sup>	.365	.236	.182
Adjusted R <sup>2</sup>	.358	.227	.172
Sig.	.000	.000	.000
<b>B</b>	<b>.741</b>	<b>.468</b>	<b>.519</b>
<b>Testing of H5 (PM)</b>			
R <sup>2</sup>	.184	.161	--
Adjusted R <sup>2</sup>	.175	.151	--
Sig.	.000	.000	--
<b>B</b>	<b>.338</b>	<b>.248</b>	--
<b>Testing of H6 (MM)</b>			
R <sup>2</sup>	.348	.331	.201
Adjusted R <sup>2</sup>	.340	.323	.192
<b>B</b>	<b>.677</b>	<b>.520</b>	
Sig.	.000	.000	.000
<b>Testing of H7 (CA)</b>			
Adjusted R <sup>2</sup>	.252	.180	.195
<b>B</b>	<b>.457</b>	<b>.341</b>	<b>.401</b>
Sig.	.000	.000	.000
<b>Testing of H8 (DF)</b>			
Adjusted R <sup>2</sup>	.056	.086	-.023
<b>B</b>	<b>.242</b>	<b>.229</b>	
Sig.	.015	.003	.798
<b>Testing of H9 (PMS)</b>			
Adjusted R <sup>2</sup>	.072	.081	.050
<b>B</b>	<b>.220</b>	<b>.182</b>	<b>.188</b>
Sig.	.006	.004	.020

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All models are significant and explain between 5 to 36 percent of the dependent variables variance, suggesting a reasonable “model fit”. Moreover, the standardized regression coefficients indicate significant relationship between some of the independent and dependent variables.

It can be concluded that product development (PD) capability will influence only MBP business performance related to Marketing, in Pakistan however this influence is positive.

The maximum value of adjusted  $R^2$  suggests that Channel Management is the independent variable explained the three performance dimension with adjusted R square value of 35%, 22%, and 17% respectively as compared to all other factors.

However in case of promotion management there is no result found related to FBP meaning thereby that no one independent variable explained the dependent variable FBP that there is no association of Promotion management capability with Business Performance related to Finance FBP in Pakistan. The adjusted  $R^2$  is -2.3% which give non significant result and the no one is explaining sufficiently the dependent variables.

It is found that Differentiation Strategy will not lead the organizations perform better when regressed with BP1 and MBP having statistical significance i.e. .015 and .003 respectively. However there is no result found related to FBP meaning thereby that no one independent variable explained the dependent variable FBP that there is no association of Differentiation Strategy with Business Performance related to Finance FBP in Pakistan.

Overall it can be concluded that all independent variable of marketing capabilities and strategy frame work will influence business performance related to Finance, marketing and overall in Pakistan; this influence may be positive and negative.

## **7. Discussion**

This research project design to accomplish two main objectives. The first objective was to determine which marketing capability is most important in term of its effect on Firm's Performance in the business environment in Pakistan with regard to their degree of differentiation, cost leadership and scope.

The findings support our hypothesis that there is a relationship of marketing capabilities and strategies with business performance but the relationship differ. However the research question to be answered that which Marketing Capability is more significant so from the findings it support that in case of Channel Management the independent variable explained the three performance dimension. In case of marketing the Product Development (PD) efforts are more responsive to the customer needs than those of our competitor which influence positively in the business environment in Pakistan. Marketing Management Capability also contributed.

However the most important marketing capability in term of its effect on a Firm's Performance in the business environment of Pakistan is the Market Research Capability as the maximum items of this independent variable are contributed in the result of regression to check the impact on Firm's Performance as it explained with significant value of Adjusted R square and more items contribution which are "market sensing ability, using of marketing research information and developing the better marketing program than the competitors".

The second objective of this study was to explore which strategy using Porter's framework is more significant in its impact on business performance in the environment of Pakistan. This study support that in case of Differentiation the independent variable explained the three performance dimension with adjusted R square value which are so insignificant and small values also only one item is selected in stepwise method in

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case of BP1 and MBP “our product/services have distinctly different features from those of competing products”. And have no result with performance in finance area meaning thereby that there is no one variable explain the dependent variable FBP.

However the most important strategy in term of its effect on a Firm’s Performance in the business environment of Pakistan is the Low Cost Leadership strategy as the maximum items of this independent variable are contributed in the result of regression to check the impact on Firm’s Performance as it explained with significant value of Adjusted R square 25.2%, 18%, and 19.5% and more items contribution which are “lowest cost producer in their industry and the emphasis on efficiency”.

## **8. Limitation and Implication for Future Research**

Restricting our study to multiple corporations confer both advantages and limitations. One advantage is that with the stand-alone business we may suggest that we would get strong and positive result which supports the model and variables if we may examined.

The most important potential limitation in using the multiple corporation data we found insignificant results, for we found that due to different firm from different industry as well as a considerable variation in responses.

Despite this body of research, which is tested in Pakistani environment and of Pakistani firms, we believe that our findings demonstrate that firms should tailor their Marketing Capability and Strategy behavior to compliment the requirements of their Business Performance. However it is also suggested that there may be many other Marketing-Business Strategy relationships and many other construct that has not been examined. Even within the context of this study, we cannot state which action a marketing executive should take to create specific structure or behavior.

This study demonstrate that one successful way to do this is to invest in the development of capabilities in market research and on low cost strategy and take advantage of market opportunities. This Market Research Capability and the Low Cost Leadership Strategy must then be leveraged by the development of successful marketing programs built around different Marketing Capabilities in pricing, channel management and promotional management and carefully coordinated and managed for success.

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