# *Developing new marketing strategy theory: addressing the limitations of a singular focus on firm financial performance*

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**AMS Review**
Official Publication of the Academy of Marketing Science

ISSN 1869-814X

AMS Rev
DOI 10.1007/s13162-015-0072-x


ONLINE FIRST

AMS REVIEW

June 2015 Volume 5 Numbers 1–2

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The Academy of Marketing Science
www.ams-web.org

Springer

ISSN 1869-814X • 13162
5(1–2) 1-60 (2015)

Springer

AMS Rev
DOI 10.1007/s13162-015-0072-x

THEORY/CONCEPTUAL

# Developing new marketing strategy theory: addressing the limitations of a singular focus on firm financial performance

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Received: 16 October 2015 / Accepted: 19 October 2015


**Abstract** This commentary complements the Hunt (2015) essay and identifies the challenges that the R-A theory poses with its emphasis on superior financial performance as a firm's primary and superordinate objective. It points to the need for new marketing strategy theory with a broader perspective of including other stakeholders beyond investors while designing firm objectives. In addition, the commentary points to short-termism as an inevitable consequence of focusing on financial performance. It thus calls for new marketing strategy theory that includes intermediate objectives based on customer mindset metrics that reflect intangible marketing assets.

**Keywords** Stakeholders · Short-termism · Intangibles · Sustained firm performance

Hunt (2015) offers a comprehensive and systematic exposition of the generalizability of the R-A theory. He makes a case for R-A theory's alignment with as well as distinction from Varadarajan (2010)'s foundational premises of marketing strategy. This commentary highlights the challenges that a single minded focus on a superordinate objective of firm financial performance suggested in Hunt (2015) poses for firms and identifies the opportunities it creates for future marketing strategy theory. This commentary proceeds as follows: it first briefly summarizes Hunt (2015) with a particular focus towards its emphasis on the primary purpose of firm strategy. Next, the commentary explores the dysfunctional consequences of a singular focus on firm profit performance and the need for emerging strategy to evolve beyond such an approach. It then discusses the motivation for new marketing strategy theory to emerge that captures a multi-stakeholder perspective and theory that goes beyond firm financial performance as an outcome. In the process, the commentary articulates the challenges in developing new marketing strategy theory.

Hunt (2015) reviews his seminal R-A theory that builds on the intellectual foundations of the neoclassical economics and resource based and dynamic capabilities theories in strategy. The R-A theory is described as encompassing perfect competition theory and other theoretical representations in marketing strategy, including Alderson's functionalist theory of market behavior (Alderson 1957, 1965). The primary objective of Hunt (2015) is to relate the R-A theory to marketing strategy's foundational premises documented in Varadarajan (2010). Hunt (2015) is motivated to do so as the "Varadarajan marketing strategy premises" are expected to generalize across products, markets and time horizons. By aligning and extending Varadarajan's (2010) sixteen foundational premises with the R-A theory, Hunt (2015) attempts to establish his theory as a general theory of marketing (GTM) and enhance the prestige of marketing strategy as field worthy of study. The R-A theory explicates the theoretical process of developing superior marketing strategies thus providing a productive path for the continued evolution of strategic marketing theory.

## Primary purpose of firm strategy

The R-A theory defines the basic purpose of a firm as delivering superior financial performance. Hunt (2015) draws a distinction between this objective and neoclassical profit maximization by firms. He draws the distinction by acknowledging (a) the decision making biases caused by imperfect

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Published online: 21 November 2015

information in the hands of managerial decision makers, (2) agency issues driving self-interested behaviors by managers, (3) obligatory behaviors of managers and (4) ethical code mismatches between managers and employees, all which constrain firms from the goal of profit maximization. Recent well documented studies of economic inequality (e.g., Piketty 2014), major economic upheavals and agency issues among others have collectively led to questions about a single minded goal of financial performance. A mere focus on superior financial performance has two inherent downsides. First, it leads to an emphasis on investors as the primary critical stakeholder to serve to the detriment of other critical stakeholders. Second, in many instances, it encourages a short-term focus on the part of firms (Graham et al. 2005; Mizik 2010) leading to severe long-term consequences. Long-term sustainability is critical, and firms' objectives, as firms are on-going entities, need to be reframed as delivering "sustained firm performance" (Varadarajan 2010). I elaborate on these issues below.

## Multi-stakeholder objectives of firm strategy

The agency issues impacting managerial decisions are non-trivial. Recent allegations of Volkswagen's use of a defeat device to manipulate emission checks or Johnson & Johnson's practice of off-label marketing of Risperdal to children and the elderly (http://nyti.ms/1QHNTkg), provide evidence of the danger of focusing on single-minded pursuit of financial performance. Beyond potential illegality, firm practices that exploit environmental resources or impact societal health also ignore the interests of other societal and community stakeholders. Similarly, recent extreme pricing increases on established drugs–heart medication of Valeant Pharmaceuticals and parasitic infection medication by Turing Pharmaceuticals– neither of which are based on capabilities but a legal endowment (http://www.nytimes.com/2015/09/22/business/big-price-increase-for-tb-drug-is-rescinded.html) — also fall into the category of being purely motivated by financial performance goals.

At its core, the study of marketing is the study of the relationship between a firm's offering and its stakeholders in the context of a transaction. However most research and practice including Hunt (2015) has focused on the relationship between a firm offering and its commercial stakeholders such as customers, retailers, and suppliers. The R-A theory with its focus on firm financial performance and commercial stakeholders has the inherent potential to focus on pareto-optimal solutions, wherein the welfare for any one individual cannot be increased without decreasing the welfare of another. In practice, such a solution suffers from the limitation of firms focusing on maximizing profits for themselves at the cost of externalities that has to be dealt with by society. For example, firms offering high fat or high sugar offerings in the marketplace may maximize their profits, but the same time, may potential cause public health hazards (an externality), whose costs are borne by society, while the gains from the firm's activities are captured by the firm.

Two interrelated disruptive forces, namely, the rise of societal expectations on corporations, and the advent of the networked economy, are increasing the influence of other constituents on the ability of firms to achieve their performance goals. The rise in expectations about the societal role of corporations has forced corporate social responsibility issues into the boardroom agendas of many corporations (Waddock and Graves 1997; Haanaes et al. 2011) and made it a mainstream concern for consumers (Trudel and Cotte 2009). For instance, a majority of consumers across the 26 countries measured in the World Value Survey believe protection of the environment to be of greater importance than economic growth. In addition, institutions such as the Sustainability Consortium are developing standards for measuring and reporting to consumers the social and environmental effects of products, making it feasible for sustainability attributes to become a new point of differentiation and competition among firms. Thus, societal stakeholders – such as consumer advocate groups, NGOs and policymakers - are gaining a renewed influence as a market-shaping force (Kotler 2011).

The second discontinuity is the heightened connectedness among market participants. Technological advances have enabled the creation of social networks where not just consumers but also other constituents have an enhanced ability to create and disseminate information about products at greater speed and scale than ever before (Day 2011). Moreover, a mismanagement of one constituent group can easily be shared with others across groups and geographies, quickly becoming a problem that can negatively impact the firm. A sole focus on financial performance and the inability to account for and manage the needs of multiple constituents can be perceived as a new type of marketing myopia (Smith et al. 2010). Such behavior can lead to marketing actions that may drive short term results at the expense of longer term risks to the firm.

Companies have responded to the new reality of multiple stakeholders by embedding community and societal oriented issues into their corporate and marketing strategies as well as reporting practices as documented in the annual reports of multinational firms such as Procter & Gamble, Nestle, Unilever and Danone. Such actions reflect a departure from the traditional concept of CSR and are a shift discussed in existing research streams such as Corporate Social Performance (Carroll 1979; Wartick and Cochran 1985), Blended Value (Emerson 2003) and Shared Value (Porter and Kramer 2011). The implication for marketing strategy theory and practice is that concerns about social and environmental responsibility are no longer limited to a small segment of the macro market environment. Instead, the environmental and social consequences of marketing practices are becoming critical factors in people's purchase (Becker-Olsen et al. 2006; Du et al. 2007) or employment decisions (Turban and Greening 1997; Bhattacharya et al. 2008; Kim et al. 2010).

Focusing on multi-stakeholder outcomes requires firms to also extend beyond a risk mitigation approach. Marketing capability is often defined as superiority in identifying customers' needs and in understanding the factors that influence consumer choice behavior (Dutta et al. 1999) as well as the ability to develop and maintain relationships with customers, including both end users and channel members (Moorman and Slotegraaf 1999). While these elements of marketing capability continue to be important as viewed through a RA theory or market based assets lens (Srivastava et al. 1998, 1999), the scope of marketing strategy theory can be extended by examining the ability of firms to deliver a value proposition that meets the needs of a portfolio of commercial and societal stakeholder needs (Vila and Bharadwaj 2015). As such, this proposal involves an addition to the customer-centric view on capabilities by introducing a stakeholder-centric view on capabilities. Particularly for firms operating in socially networked market environments, focusing on customer needs as the primary input in the design of a firm's marketing strategy can be myopic, increasing the risk that managers do not identify or fail to address relevant stakeholder needs with their marketing activities (Smith et al. 2010). Under the proposed extension to marketing strategy, the marketing function would evolve its role towards becoming a designer of offerings that, while looking to serve customer needs, does so in a way that accounts for the needs of societal stakeholders.

## Financial performance goal and short-termism

Over the last decade, there is a growing recognition that firm actions are increasingly short-term. There is significant consensus that managers incentivized to deliver on financial performance goals (which are primarily measured at a quarterly time period) focus on taking strategic actions that only deliver immediate performance. The range of these actions include (for the sake of illustration), focusing on short-term projects that deliver immediate financial results, underinvesting in intangible resources and capabilities that provide longer-term pay-offs and unethical or illegal behavior. Juxtaposed with this is the accounting treatment of marketing spending that does not distinguish between expenses and investments, instead treating all marketing activities as expenses to be deducted in the current accounting quarter (Srinivasan and Hanssens 2009). In combination with short-termism it gives rise to the practice of real-activities manipulation (Gunny 2010). It is not surprising then, that at the corporate level, investments in marketing resources and capabilities are the first line items to be cut in order to meet the current period earnings targets. Survey evidence suggests that over 78 % of CFOs adhere to this practice (Graham et al. 2005). Marketing research provides evidence that real-activities manipulation include promotional spending, stockpiling behavior, overproduction, discounting, brand equity "milking" practices, ratcheting new products, launching minor new products based on marginal changes rather than investing in break-through new products (Aaker 1991; Chapman and Steenburgh 2011; Moorman et al. 2012). Recent research studies have started to identify the negative consequences of such short-term actions to the firm's overall performance. Firms that engage in for the short-term or myopically tend to experience a significant underperformance in the stock markets (e.g., Mizik 2010), even after being able to "fool" the markets in the initial periods.

The research in the marketing-finance interface has also demonstrated that marketing resources and capabilities (such as branding, customer management etc.,) drive intermediate outcomes such as brand equity, brand quality, customer satisfaction and loyalty. These intermediate outcomes in turn serve as early indicators of firm value. Interestingly, this stream of research finds that while market resources, capabilities and strategies influence a firm's stock market performance, a firm's stock market performance also impact firms' investments in resources, capabilities as well as the firm's strategy (Markovitch and Golder 2008; Chakravarty and Grewal 2011; Moorman et al. 2012; Wies and Moorman 2015).

## Extending marketing strategy theory

A transformation in the role of marketing from representing the voice of the customer within the firm to becoming the connector of commercial and societal stakeholder needs throughout the firm is not without challenges for marketing strategy research. As traditionally conceived, the focus of a market oriented firm is on generating and responding to customer and competitive needs and less focused on assessing the needs of other internal or external stakeholders. This literature also recognizes the importance of cross-functional integration, but it tends to be focused on the integration across internal departments, such as between marketing and sales or marketing and manufacturing (Bharadwaj et al. 2007; Homburg and Jensen 2007; Ernst et al. 2010). Future research in marketing strategy could address the following issues. First, the integration of marketing activities with external entities such as stakeholder organizations is underexamined in extant marketing strategy research including Hunt (2015). Future marketing strategy research needs to address the capabilities required for external partnerships required - including societal stakeholders such as NGOs and consumer advocates - into the web of relationships they manage. Second, adopting a multi-stakeholder perspective may require an evolution in marketing strategy towards the creation of marketing function and managers as integrators of stakeholder needs. One can expect coordination costs to increase when addressing commercial and societal stakeholder needs within the same strategy. Consequently, new theory in marketing strategy needs to address the inherent cost-return tradeoffs involved in marketing strategy that is required to address the societal and commercial needs of stakeholders. Third, delivering to multiple stakeholders introduces new optimization challenges for managers and thus potential for new marketing strategy theory beyond the work on Hunt (2015).

The emergence of the marketing-finance research makes clear that a single-minded focus on financial performance can be an Achilles heel for firms as it encourages short-term thinking on the part of firms. Future research in marketing strategy needs to go beyond short-term financial performance and begin incorporating customer mindset related intermediate outcomes as an explicit component of marketing strategy. In addition, recognition of the dynamic process and feedback between marketing strategy and financial market outcomes needs to be considered in an extension of marketing strategy theory beyond Hunt (2015).

## Conclusion

This commentary provides a perspective about developing new marketing strategy theory beyond the well-established R-A theory discussed in Hunt (2015). Taken together with Hunt (2015), it should be useful as marketing strategy researchers attempt to explain the role of marketing strategy in firms. Marketing strategy researchers with their institutional knowledge are uniquely positioned to extend the theoretical perspective in Hunt (2015). The results of such an endeavor should lead to more current and broader perspective of marketing strategy theory and practice.

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