

Examining the Relationship between Marketing Capability and Innovation

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Abstract

The need for organizations to innovate comes from increasing competition and customer demands and new market areas. In today's complex and turbulent environment the need for innovation in products and processes is widely recognised. For firms competing in a global market place, innovations play an increasingly vital role in achieving superior performance. Marketing capability is considered to be an important factor to innovation and enhance competitive advantage of firms. The present paper intended to study the relationship between marketing capability and innovation. The study was conducted through descriptive-applied method and standard questionnaire was tool of data collection. The statistical population included 80 managers of stone and mining industry in Isfahan that among whom 70 persons were studied as research sample using Cochran formula. The results revealed that there is a positive and significant relationship between marketing capability and innovation.

Keywords: Capability, marketing capability, innovation.

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Introduction

Capabilities are effect complex bundles of knowledge, skills and abilities embedded within firm business processes operating at various levels within firms. As such, capabilities are built upon the processes developed by firms by bringing people and resources together in repeated efforts. On this point Amit and Schoemaker (1993) advocate that capability refers to the organizational capacity to deploy resources,

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generally in combination, using organizational processes to affect a desired end. Importantly, Day (1994) notes that it is impossible to enumerate all possible marketing capabilities because they generally vary among businesses owing to the nature of the business environment. Marketing capabilities are defined as 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 (O'Casey & Weerawardena, 2010). Such capabilities, once built are very difficult to imitate for competing firms. Thus, marketing capability is considered to be an important source to enhance competitive advantage of firms.

The role and importance of organizational innovativeness or innovative capability, in attaining competitive advantage has been widely discussed. An organization's capability to innovate is acknowledged as one of the crucial factors for it to survive and succeed. Researchers argue that marketing capability is a core factor of the innovation. The importance of marketing capability for innovation has been proven by several studies which analyzed the impact of marketing capability on innovation (e.g Weerawardena, 2003).

In sum, the aim of this paper is to study the relationship between marketing capability and innovation. We start with some remarks on the current theoretical debate on marketing capability and innovation. Next, we address research background related to our research. After that we discuss conceptual and methodological issues of our own framework and present the main research hypothesis and sub-hypothesis, we then summarize the main findings of our research and discuss policy implications of our empirical findings.

Literature Review

Marketing capability

The capability-based theory suggests that a firm can achieve competitive advantage through distinctive capabilities possessed by the firm and that the firm must constantly re-invest to maintain and expand existing capabilities in order to inhibit imitability. Marketing capability of a firm is reflected in its ability to differentiate products and services from competitors and build successful brands and firms with strong brand names can charge premium prices in foreign markets to enhance their profitability (Weerawardena, 2003).

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). (Afzal, 2009).

Based on Day (1994), marketing capability is defined as 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. Marketing capabilities are classified by Day (1994) as three types: Outside-in capabilities, Inside-out capabilities, spanning capabilities.

Vorhies and Morgan (2005) propose a clear and tractable definition and measurement of MC based on an integrative examination of previous studies dealing with the quality of marketing program planning and execution ability. Specifically, they divide MC into two subsets, namely: specific marketing capabilities and architectural marketing capabilities. Specific marketing capabilities are identified and used to transform resources into valuable outputs based on the classic marketing mix (e.g. promotion capability). Architectural marketing capabilities are used to orchestrate marketing mix capabilities and their resource inputs related to market information management, marketing strategy development and execution (Shin and Aiken, 2012).

In this research, we conceive marketing capability as a construct with four different dimensions:

Outside-in capabilities. These capabilities help in understanding and participating in markets, such as being effective in using market information, and building customer relationships. Developing these capabilities will require a market focus in the corporate culture.

Inside-out capabilities. These capabilities contribute to effective market participation, such as effective financial, human resource and marketing management.

Spanning capabilities. The role of these capabilities is to integrate outside-in and inside-out capabilities, such as effective new product planning, pricing and internal communications.

Networking capabilities. These are capabilities for effectively managing relationships with suppliers and other strategic partners. They are general skills and knowledge that are universally needed. (Greenley et al, 2005).

Innovation

Innovation is widely recognised as a core renewal process within organisations. Unless managers continuously look for ways to change or at least improve offerings (product/service innovation) or create and deliver those offerings (process innovation), organisations risk becoming increasingly vulnerable to hostile and turbulent environments (Tranfield et al, 2003). Product innovation is defined as the product or service introduced to meet the needs of the market or of an external user, and process innovation is understood as a new element introduced into production operations or functions (Damanpour and Gopalakrishnan, 2001). Product innovations focus on the market and are aimed at the customer, while process innovations focus on the internal workings of the company and aspire to increasing efficiency (Utterback and Abernathy, 1975).

Innovation involving new management practices, new organization, new marketing concepts and new corporate strategies. (Battisti and Stoneman, 2010). Schumpeter (1934) identified five different types of innovations:

- ❖ New product;
- ❖ New methods of production;
- ❖ The exploration of new market of production;
- ❖ New source of supply;
- ❖ New ways to organise business.

Innovation can be manifest in product modifications, new marketing and distribution strategies, process changes, and new conceptions of scope (Porter 1990). All types of innovations can lead to sustained competitive advantage. Although the literature suggests that innovations can occur in any value-creating activity, suggesting that it should be conceptualized to cover a broad range of activities, past innovation research is biased toward technological innovation. However, firms undertake both technological and non-technological innovations and all such innovations can lead to competitive advantage. In this paper, organizational innovation is defined as the application of ideas that are new to the firm, to create added value either directly for the company or indirectly for its customers, whether the newness and added value are embodied in products, processes, services, or in work organization, management or marketing systems (Weerawardena, 2003).

Research background

Genc et al (2013) conducted a study entitled “resource based view and the impacts of marketing and production capabilities on innovation ”. They investigated the relationship between marketing capabilities, production capabilities and innovation. The results showed that there are significant relationships among marketing capabilities, production capabilities and innovation.

Morgan et al (2009) conducted a study entitled “market orientation, marketing capabilities, and firm performance”. They find that market orientation has a direct effect on firms’ return on assets (ROA), and that marketing capabilities directly impact both ROA and perceived firm performance.

In his study entitled "The role of marketing capability in innovation-based competitive strategy", Weerawardena (2003) showed that marketing capabilities influence both the innovation intensity and sustained competitive advantage of the firm.

Based on the above discussion on marketing capability and innovation, we propose the conceptual model shown in Figure 1.

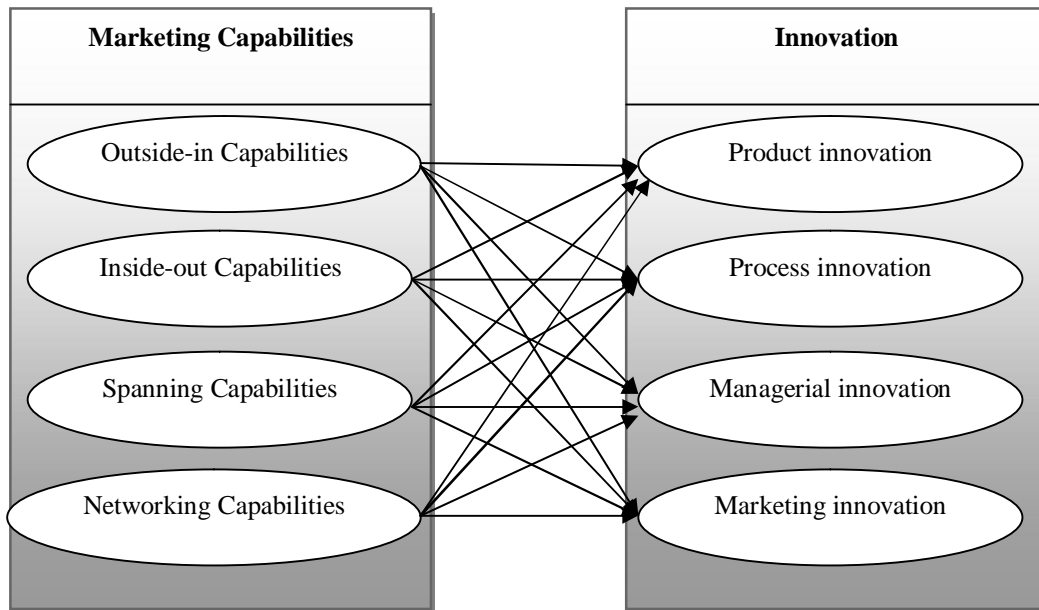


Figure 1: research conceptual model

Research hypotheses

The following hypotheses were proposed given to the above model:

The main hypothesis

There is a positive relationship between marketing capability and innovation.

Sub- hypothesis

There is a positive relationship between outside-in capabilities and the components of innovation.

There is a positive relationship between inside-out capabilities and the components of innovation.

There is a positive relationship between spanning capabilities and the components of innovation.

There is a positive relationship between networking capabilities and the components of innovation.

Research methodology

The present study was conducted using descriptive-correlational method. The statistical population included 80 managers of stone and mining industry in Isfahan. The

sample size was obtained equal to 70 persons using Cochran formula. Standard questionnaire was tool of data collection.

Capability marketing is measured using the Capability marketing Scale developed by Greenley et al (2005). It has four subscales: outside-in capabilities, inside-out capabilities, spanning capabilities and networking capabilities. The innovation scale capture of the extent of the firms' product, process, managerial and marketing innovation. This definition reflected the importance of broader conceptualization of innovation that incorporated both technological and non-technological innovation. (Damanpoure, 1991).

Determine its validity face ,validity of the method used is content with faculty researcher and to determine the reliability of cronbach's alpha method is used in both marketing capability and innovation that The reliability coefficient for each of the 0.689 and 0.844, respectively, and this means that the reliability of the questionnaire is distributed fairly reasonable. Inferential statistics and SPSS software were used to confirm or reject the hypotheses.

Studying hypotheses and results

In order to study this hypothesis spearman's rank correlation coefficient of two variables of marketing capability and innovation obtained and their significance was investigated. According to table 1, that is the result of SPSS output the estimated value of correlation coefficient between these two variables is equal to 0.286. This is a positive value that confirms positive correlation between the two variables and is significant at level $\alpha = 0.05$, because p-value is less than 0.05.

Table 1. Correlation coefficient of two variables of Marketing capability and innovation

variables	Innovation	
Marketing capability	Correlation coefficient	0.286*
	P-value	0.016
	Number	70

**Correlation is significant at the 0.01 level (2-tailed). N = 70

*Correlation is significant at the 0.05 level (2-tailed). N = 70

In order to study Sub-hypotheses correlation coefficient was investigated. Results of the test data is given in table 2.

Table 2: Results of Sub-hypotheses hypothesis test

Row	Aspects of marketing capability	Components of innovation	Correlation Coefficient	Considerations
1	Outside-in capabilities	Product innovation	0.59**	Confirmed
2	Outside-in capabilities	Process innovation	0.40**	Confirmed
3	Outside-in capabilities	Managerial innovation	0.17	Rejected
4	Outside-in capabilities	Marketing innovation	0.11	Rejected
5	Inside-out capabilities	Product innovation	0.279*	Confirmed
6	Inside-out capabilities	Process innovation	0.070	Rejected
7	Inside-out capabilities	Managerial innovation	0.269*	Confirmed
8	Inside-out capabilities	Marketing innovation	0.340**	Confirmed
9	Spanning capabilities	Product innovation	0.035	Rejected
10	Spanning capabilities	Process innovation	0.54**	Confirmed
11	Spanning capabilities	Managerial innovation	0.035	Rejected
12	Spanning capabilities	Marketing innovation	0.58**	Confirmed
13	Networking capabilities	Product innovation	0.303*	Confirmed
14	Networking capabilities	Process innovation	0.224	Rejected
15	Networking capabilities	Managerial innovation	0.174	Rejected
16	Networking capabilities	Marketing innovation	0.263*	Confirmed

**Correlation is significant at the 0.01 level (2-tailed). N = 70

*Correlation is significant at the 0.05 level (2-tailed). N = 70

Discussion and Conclusion

The main goal of our studies was relationship between capability marketing and innovation. Correlation analysis between variables indicated that there is a significant relationship between capability marketing and innovation. The result of present study confirm studies: (Genc et al, 2013)(Morgan et al, 2009)(Weerawardena, 2003).

According to the findings of this study, innovation will be enhanced by capability marketing. Capability marketing is the antecedent of innovation. Organizations can use of capability marketing for innovation which in turn led to sustainable competitive advantage. Similar to this finding Hutt et al (1988), found that marketing capability impacts on both technological and non-technological innovation, providing support for

the view that marketing is an initiator of innovation activity in the organization. Marketing capability consists of the bundles of interrelated routines such as pricing, product, distribution, selling, advertising, promotion, marketing communication, and marketing planning, all of which effect the success of the new product and innovation(Genc et al, 2013).

The results of the Sub-hypothesis test show that there is a significant relationship between the outside-in capabilities with product innovation and process innovation. This finding may be indicate that outside-in capabilities (help in understanding in markets), can led to aware of customer demands and new market areas that result innovation in product and process. Also, results indicate there is a significant relationship between the inside-out capabilities with Product innovation, managerial innovation and marketing innovation. Having inside-out capabilities (such as effective financial, human resource and marketing management) may enhance innovation by product modifications, new marketing and managerial strategies.

The findings also show that there is a significant relationship between the spanning capabilities with process and marketing innovation; and networking capabilities with product and marketing innovation. Thus, we can conclude that spanning capabilities such as effective new product planning, pricing and internal communications lead to innovation in process and marketing. Also, networking capabilities or effectively managing relationships with suppliers and other strategic partners can play an important role in innovation in product and marketing. As, Zirger and Maidique (1990) stress that weak communication links and cooperation between the functional groups leads to critical knowledge loss that is needed for new product success.

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