Dynamic Managerial Capabilities and Strategic Marketing – The Hierarchy of Capabilities

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Abstract

The role of management is essential in the dynamic capabilities discourse. This research proposes the introduction of dynamic managerial capabilities to strategic marketing in order to emphasize the role of management in modifying the core business processes and their interrelationships for enhanced value creation. Based on a conceptual analysis, we build a hierarchy of capabilities highlighting the role of management in reconfiguring the capabilities of a firm and their contribution to customer value creation. We conclude the article with a research agenda to spark further interest on the topic.

Keywords: dynamic managerial capabilities, strategic marketing, core business processes, value creation

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Introduction

Strategic marketing draws heavily from the field of strategic management (Day, 1994; Fahy and Smithee, 1999). A major shift in the field of strategic management has been towards searching competitive advantage from within the firm, in the form of resource-based view (RBV), core competence and capability perspectives (Barney, 1991; Hoskisson *et al*., 1999; Penrose, 1959; Teece, Pisano and Shuen, 1997). This shift has also reached strategic marketing, as more research embrace these perspectives (e.g. Capron and Hulland, 1999; Fahy and Smithee, 1999; Srivastava, Fahey and Christensen, 2001; Vorhies and Morgan, 2005).

This research aims at contributing to the body of research in strategic marketing by introducing dynamic managerial capabilities to the discourse and therefore extending the integration of dynamic capabilities and strategic marketing (e.g. Bruni and Verona, 2009; Menguc and Auh, 2006; Song *et al.,* 2005). This enables producing a management focused perspective to strategic marketing and postulating how these capabilities can contribute to the key value creating processes of the firm and therefore addressing the contribution of marketing, similarly as Day (1997) suggested. Additionally, according to multiple authors, the role of management is essential in dynamic capabilities (e.g. Teece, Pisano and Shuen 1997; Eisenhardt and Martin 2000) and therefore such perspective should also be brought to the field of strategic marketing.

This research is formulated using a conceptual analysis (e.g. Block and Stalnaker, 1999) of capability discourse in strategic marketing and the dynamic capability discourse in strategic management and on their convergence. We build our argument utilizing core value creating processes as operational capabilities over which dynamic managerial capabilities are constructed to enable altering the processes.

The specific goals of this article are twofold. First, to introduce dynamic managerial capabilities to strategic marketing discourse, as the capability of management to adjust the value creating system, to match change in customer needs (Parasuraman, 1997; Woodruff, 1997). This stems from the notion that for a capability to be strategic, it has to be honed to the needs of the customer (Teece and Pisano, 1994). It also enables addressing the problem of post rationalization made by Powell (2001). Secondly, our aim is to introduce a hierarchy of capabilities that enables identifying different types of capabilities and helps in explaining performance differences between firms (Collis, 1994; Grant, 1996; Winter 2003). These are accompanied by an agenda for inquiry to pave way for empirical testing of the ideas presented here.

Strategic Marketing

Strategic marketing for the purpose of this research can be defined as the organization-wide, long-term oriented modification of the organization for the generation of customer value and sustainable competitive advantage (Day, 1994; Narver and Slater, 1990; Srivastava, Shervani and Fahey, 1999; Srivastava, Fahey and Christensen, 2001). Multiple perspectives of strategic

marketing can be identified, such as market-orientation, marketing capabilities and RBV (*ibid.*).

Specifically, this research embraces the organizationally embedded view of marketing introduced by Srivastava *et al.* (1999; 2001). By this view, marketing is embedded in the three core business processes, which are:

1. Product Development Management Process
2. Supply Chain Management Process
3. Customer Relationship Management Process

These processes are treated as constellations of assets and capabilities (Ramaswami, Srivastava and Bhargava, 2009; Srivastava, Fahey and Christensen, 2001). This is also in line with the suggestions of Bingham, Eisenhardt and Furr (2007) that processes can be treated as capabilities. A central reason for choosing this perspective stems from the grounding of the core business processes in capability perspective.

The goal of infusing marketing into the core business processes is the generation of superior customer value, which leads to sustainable competitive advantage (Day, 1997; Srivastava, Shervani and Fahey, 1999). Customer value, however, is not a static concept but a changing one (Parasuraman, 1997; Woodruff, 1997). Therefore, this calls out for an explanation of what aligns the processes to these changes in customer value? In this research, dynamic managerial capabilities are used as the perspective explaining this adaptation and change.

Distinction of Capabilities

The concept of dynamic capabilities appears in marketing literature from time to time (Bruni and Verona, 2009; Menguc and Auh, 2006; Peltoniemi, Tikkanen and Laaksonen, 2010). Therefore, a distinction of different types of capabilities is needed in order to clarify how capabilities are perceived in this research. As a point of departure, we define capability as "the *capacity* to perform a particular task, function, or activity" (Helfat *et al*., 2007, p. 121).

A major stream of research in strategic marketing is the one focusing on marketing capabilities (e.g. Capron and Hulland, 1999; Day, 1994; Vorhies and Morgan, 2005). These capabilities can be labeled as operational capabilities, as they are aimed at performing certain tasks or activities and they enable making a living in the present (Collis, 1994; Grant, 1996; Winter, 2003).

Dynamic capabilities, on the other hand, are focused on creating, extending and modifying the resource base of the firm (Easterby-Smith, Lyles and Peteraf, 2009; Helfat *et al*., 2007, p. 4). This includes the resources and capabilities of the firm, including the dynamic capabilities themselves (ibid.).

Organizational capabilities have been proposed to form a hierarchy where change related capabilities (i.e. dynamic capabilities) are built over the operational capabilities (Collis, 1994; Grant, 1996; Winter 2003). From this perspective, the higher order capabilities outperform lower order capabilities in generating sustainable competitive advantage (Winter, 2003).

The development of capabilities follows sequential steps (Brown and Eisenhardt 1997; Eisenhardt and Martin 2000). This stems from the notion that higher order capabilities require lower order capabilities to be developed (ibid.).

Dynamic Managerial Capabilities

Dynamic managerial capabilities are a subgroup of dynamic capabilities that have been defined by multiple authors (e.g. Helfat *et al*., 2007; Martin, 2010) as:

> *Dynamic managerial capability is the capacity of managers to purposefully create, extend, or modify the resource base of the firm* (p. 24)

The reason to utilize dynamic managerial capabilities rather than dynamic capabilities stems from two main reasons. As the core business processes are essentially management processes, it is logical that the capabilities to change these processes lies within the management also. Additionally, by first identifying the locus of dynamic capabilities to be in the management, the ex post rationalization of it can be avoided and therefore the critique of Powell (2001) can be avoided.

Furthermore, these capabilities can be used to respond to change or to create it. This depends on the orientation of the management that can either be entrepreneurial (Zahra, Sapienza and Davidsson, 2006) or adaptive (e.g. Peteraf and Reed, 2007).

The Hierarchy of Capabilities

Based on the distinction of capabilities and the adopted perspective to marketing, a framework for analyzing capabilities can be presented (Table. 1). This framework aims at explaining how different capabilities affect the core business processes, and therefore contribute to the value creation, and eventually the sustainable competitive advantage.

Type of capability	**Locus of capability**	**Steps of development**	**Function**	**Contribution to customer value creation**
Higher order dynamic managerial capability	Management	Requires lower order dynamic managerial capability to be developed	Enables modifying the interrelationships of the core business processes	Interprocess modification to align the core processes to better match customer needs
Lower order dynamic managerial capability	Management	Requires operational capabilities to be developed	Enables modifying a single core business process	Single process modification to better match customer needs
Operational capability	Organization	Foundational capability	Enables making a living in the present	Process efficiency

Table. 1 Hierarchy of capabilities and their function

Based on the table 1, the core business processes can be treated as operational capabilities (Collis 1994; Helfat *et al*. 2007, p. 5; Winter, 2003). These capabilities are aimed towards performing tasks that ensure making a living at the present (Helfat *et al*. 2007, p. 5). These capabilities include for example product development (Day, 1994; Vorhies and Morgan, 2005), channel management (Morgan *et* al., 2003; Vorhies and Morgan, 2005), and acquiring orders (Capron and Hulland, 1999; Vorhies and Morgan, 2005). Despite the capabilities enable generating competitive advantage, they can be rendered irrelevant by for example benchmarking efforts initiated by managers (Vorhies and Morgan 2005).

Building over the operational capabilities, two orders of dynamic managerial capabilities can be identified. Lower order dynamic managerial capabilities can be identified to exist within each core business process for creating, extending and modifying the resource base of the process in order to entrepreneurially renew them and to align them to changes. These can be termed 'chunks' (Gavetti, 2005) or 'islands' (Postrel, 2002) of distinct activities constituting a capability. The contribution to value creation by managers lies in "developing novel and appropriate tasks, services, jobs, products, processes, or other contributions perceived to be of value by the target user" (Lepak, Smith and Taylor, 2007). This can essentially be termed dynamic managerial capability that enables a single core business process to be modified.

A higher order dynamic managerial capability can be identified to exist between the core business processes that enables the firm to create, extend and modify the interrelationships between the processes to both entrepreneurially renew the relationships and to align the processes to each other (Siggelkow, 2001; Holcomb, Holmes and Connely, 2009). This permits the core business processes to be modified to achieve between process alignment or new forms of interrelationships.

Ultimately, all these capabilities aim at contributing to the generation of sustainable competitive advantage by generating customer value (Lepak, Smith and Taylor, 2007). However, as competition intensifies, unification of the value creating processes becomes of essence, as operational capabilities can be copied by competitors (Holcomb, Holmes and Connely, 2009). Therefore, the higher order capabilities enable unification of the value creation system which is harder to imitate in contrast to operational capabilities. As customer value rises from a constellation attributes that are hardly static, coherence between the attributes of the offering are necessary. This, in turn, helps to explain how higher order capabilities outperform the lower order capabilities through coherence. Therefore, while higher order capabilities do not directly generate customer value, they modify the operational capabilities for enhanced customer value creation through coherence.

The value of this framework rises from two respects. First, it enables explaining how managers contribute to the core business processes by reconfiguring them to better match the customer needs. Secondly, the framework enables explaining firm heterogeneity and competitive advantage as different firms are able to leverage different levels of capabilities and as Collis (1994) so pointedly noted, those who possess the higher order capabilities will outperform the ones with lower order capabilities. This notion is also logical as by assuming greater coherence, the value creating system becomes more than a sum of its parts.

Discussion and Conclusion

This research proposes introducing dynamic managerial capabilities to the strategic marketing discourse for two reasons. First, despite dynamic capability discourse emphasizes the role of management; the role of management in strategic marketing discourse has been left to a lesser attention, creating a need to research the role of management in realigning the value creating system of the organization. Secondly, the hierarchy of capabilities enables highlighting different types of capabilities, the role of dynamic managerial capabilities and how different types of capabilities contribute to firm heterogeneity and ultimately to competitive advantage. This stems from the notion that higher order capabilities result in superior performance and simultaneously outperform the lower order capabilities (Collis, 1994; Grant, 1996; Winter, 2003).

Dynamic managerial capabilities in marketing require a substantial amount of empirical research in order to be established to the field of marketing and therefore an agenda for inquiry is in order. First, thus far dynamic managerial capabilities have researched by focusing on general managers (e.g. Martin 2010; Martin and Eisenhardt, 2010). However, as we postulate a hierarchy of capabilities, it is in order to define how managers on different levels contribute to different capabilities, i.e. do middle managers only contribute to single business process, while top management aligns the whole system or is this system so simple as can be argued through bounded rationality (e.g. Gavetti, 2005).

Secondly, the question of fit has to be addressed. Whether achieving internal fit, external fit or both simultaneously will generate competitive advantage has to be addressed, as mixed evidence has been presented earlier (Miller 1992; Siggelkow, 2001). This would help in explaining how the concept of fit functions when the goal is the generation of customer value.

Third, the nature and performance implications of different types of dynamic managerial capabilities have to be defined. Whether the capabilities are focused on adaptation or disruption depends on the degree of entrepreneurship of the management and therefore determining optimal combination of these is of essence (e.g. Burgelman and Grove, 2007).

This research is not without limitations. Mainly, there is still little research of the dynamic managerial capabilities and even fewer in the field of marketing. Therefore, our research is built only on extant literature and we still lack empirical data to highlight our arguments. This results in an extensive agenda for inquiry, as the concept requires a lot more clarification in the field of marketing.

The managerial relevance of this research rises from its ability to explain different types of capabilities, mainly those residing in the management. Therefore, for a manager our research provided a point of self reflection on how the value creation system of an organization can be managed.

Finally, this research is aimed providing a stepping stone for further research in dynamic managerial capabilities in marketing. Despite the concept is still not fully clarified, it provides a perspective into the role of management in strategic marketing which is still not fully clear.

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