Marketing's contribution to business strategy: market orientation, relationship marketing and resource-advantage theory

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Although overlooked to some degree by non-marketing disciplines, the discipline of marketing has contributed significantly to the body of knowledge on business strategy over the last two decades. This paper evaluates these contributions, examines how they complement dominant non-marketing theories of business strategy, and shows how marketing offers a generalized theory of competition that integrates the concepts of both marketing and non-marketing theories of business strategy.

Modern business strategy traces to the works of Kenneth Andrews and his colleagues at Harvard on administrative policy (Andrews 1971, 1980, 1987; Christensen et al. 1982; Learned et al. 1965). Viewing business strategy as the match a business makes between its internal resources and skills and the opportunities and risks created by its external environment, they developed the SWOT framework: strengths, weakness, opportunities, threats. In this framework, the chief executive officer is in charge of the process of strategy formation and the main task of corporate-level strategy is identifying businesses in which the firm will compete (Andrews 1971).

Since the development of the SWOT model of business strategy, an enormous literature on strategy and strategic planning has developed, much of which has appeared in Strategic Management Journal, Journal of Business Strategy, Long Range Planning, and Journal of Strategic Marketing, among others. Modern business strategy maintains that the strategic
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imperative of a firm should be sustained, superior financial performance and the belief that this goal can be achieved through a sustainable competitive advantage in the marketplace (Aaker 1997; Barney 1991; Bharadwaj et al. 1993; Cecil and Goldstein 1990; Coyne 1985; Day 1984; Day and Nedungadi 1994; Day and Wensley 1988; Ghemawat 1986; Lado et al. 1992; Porter 1985; Reed and DeFilippi 1990). Superior profitability is based on achieving competitive advantage in the form of unique skills and resources that allow a firm to implement business strategies superior to those of their competitors (Barney 1991). When these advantages are resistant to erosion by competitors’ efforts, firms achieve sustainable competitive advantage (Porter 1980).

Contributions to modern business strategy have come from a broad range of disciplines, including economics, strategic management, organizational behavior and operations management (Lewis and Gregory 1996). The field of marketing has also contributed to modern business strategy, but many argue that its influence here has been marginalized (Homburg et al. 1999). This is surprising since marketing would seem to be a discipline that would have much to offer because it “is uniquely able to assess customer needs and the firm’s potential for gaining competitive advantage” (Wind and Robertson 1983, 12), and in the business world marketing wields considerable influence in the development and implementation of business strategy (Homburg et al. 1999). Varadarajan and Jayachandran (1999, 121) note, “The marketing function in organizations, besides being responsible for the content, process and implementation of marketing strategy at the product-market level, plays an important role in the strategy formulation process and the determination of strategy content at the business and corporate levels.”

Since marketing practice strongly influences business strategy, why has marketing academe contributed so little to the study of business strategy? Perhaps it is a matter of perspective. Some argue that the non-marketing literature on business strategy has simply failed to incorporate research that has appeared in marketing journals (Day et al. 1990). In contrast, others argue that marketing itself is to blame. Hunt (1994, 15) maintains that marketing academics have contributed to the “tactical” emphasis of marketing inquiry by defining marketing as an “applied” discipline:

the notion that marketing is an applied discipline implies for many journal reviewers that marketing’s “job” is to take concepts, frameworks and theories from other “more basic” disciplines and then apply them to marketing. Stated succinctly, the norm is “new to marketing, but not new elsewhere.” With such a norm, the absence of original contributions to the strategy dialogue (or any other dialogue) is unsurprising.

Regardless, the functional silos that appear to exist with respect to the study of business strategy decrease the efficiency with which the body of knowledge grows. Day et al. (1990, xxi) note that there should be a better dialog between those interested in strategic management issues and those interested in marketing. Strategic management and marketing researchers need to have more opportunity to consider how methodologies and substantive research developed and applied in the marketing domain can be used to investigate strategic issues.

Thus, this article begins to close the disciplinary gap by examining some of marketing’s complementary and unique contributions to the study of business strategy. We begin by reviewing the three dominant theoretical approaches to modern business strategy: (1) industry-based theory, (2) resource-based theory, and (3) competence-based theory. Next, we briefly discuss the evolution of research on marketing strategy. Then, we review three research streams in marketing and show how they offer complementary, and in some cases unique, contributions to industry-based, resource-based and com-
petence-based theories. The three marketing research streams that we examine are market orientation, relationship marketing and resource-advantage theory.

Industry-based, Resource-based and Competence-based Business Strategy Theories

To provide a background against which marketing’s contribution to modern business strategy may be explored, we overview the three theories of modern business strategy that appear to dominate current thinking. Since the purpose of reviewing these theories is to provide a platform to examine marketing’s contribution to modern business strategy, our review is brief, not exhaustive.

Industry-based Theory

Bain’s (1954, 1968) books, when joined with the works of Mason (1939), form the basis of industrial-organization economics (IO) and its SCP model, which maintains that industry Structure determines Conduct, which determines Performance. Because barriers to entry enable firms in concentrated industries to collude, superior financial performance results from collusion and the exercise of monopoly power in such industries. For IO theory, public policy should be aimed at decreasing the monopoly element in concentrated industries by restricting mergers, breaking-up large corporations, and reducing barriers to entry.

The industry-based (I-B) theory of strategy, as exemplified by Porter (1980, 1985), turns IO economics “upside down” (Barney and Ouchi 1986, 374). If superior financial performance results primarily from industry factors, choosing the industries in which to compete and/or altering the structure of chosen industries to increase monopoly power should be the focus of strategy:

Present research [i.e. Schmalensee (1985)] continues to affirm the important role industry conditions play in the performance of individual firms. Seeking to explain performance differences across firms, recent studies have repeatedly shown that average industry profitability is, by far, the most significant predictor of firm performance ... In short, it is now uncontestable that industry analysis should play a vital role in strategy formation. (Montgomery and Porter 1991, xiv–xv)

Porter’s (1980) “five forces” framework maintains that the profitability of a firm in an industry is determined by (1) the threat of new entrants to the industry, (2) the threat of substitute products or services, (3) the bargaining power of its suppliers, (4) the bargaining power of its customers, and (5) the intensity of rivalry among its existing competitors. These forces constitute industry competition, which “continually works to drive down the rate of return on invested capital toward the competitive floor rate of return, or the return that would be earned by the economist’s ‘perfectly competitive’ industry’” (Porter 1980, 5). Because, however, “a firm is not a prisoner of its industry’s structure” (Porter 1985, 7), strategy should aim at altering industry structure by raising barriers to entry and increasing one’s bargaining power over suppliers and customers.

After choosing industries and/or altering their structure, Porter (1980) advocates choosing one of three “generic” strategies: (1) cost leadership, (2) differentiation or (3) focus. That is, superior performance can result from a competitive advantage brought about by a firm, relative to others in its industry, having a lower cost position, having its offering being perceived industry-wide as being unique, or having a focus on one particular market segment and developing a market offering specifically tailored to it. Although it is possible to pursue successfully more than one strategy at a time, “usually a firm must make a choice among them, or it will become stuck in the middle” (Porter 1985, 17).
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Internal factors come into play, argues Porter (1985), only after the firm chooses one of the three generic strategies. Specifically, he argues that the firm should implement its strategy by managing well the activities in its "value chain". Indeed, "[t]he basic unit of competitive advantage ... is the discrete activity" (Porter 1991, 102). If value is defined as "what buyers are willing to pay", then "superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price" (Porter 1985, 4).

Activities in the firm's value chain are categorized as either primary or support. Primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and service. Support activities include procurement, technology development (improvement of product and process), human resource management, and firm infrastructure (e.g. general management, planning, finance). Doing these activities well improves gross margin, promotes competitive advantage, and thereby produces superior financial performance.

Being masterfully crafted, filled with prescriptions for strategists, and based on a theory of competition that has guided public policy for decades, the I-B theory advocated by Porter's (1980, 1985) works has been very influential on business strategy. However, because (1) empirical studies show that highly concentrated industries are no more profitable than their less concentrated counterparts (Buzzell et al. 1975; Gale and Branch 1982; Ravenscraft 1983) and (2) similar studies show that the industry market share-profitability relationship is spurious (Jacobson 1988; Jacobson and Aaker 1985), many business strategy theorists have questioned the external-only focus of I-B theory. In particular, those arguing for resource-based theory focus on the primacy of firms' heterogeneous and imperfectly mobile resources.

Resource-based Theory

Contrasted with the external focus of I-B theory, resource-based (R-B) theory focuses on internal factors to explain business strategy. Resources are "any tangible or intangible entity available to the firm that enables it to produce efficiently and/or effectively a market offering that has value for some market segment(s)" (Hunt and Morgan 1995, 11). Examples of resources include distribution networks, manufacturing capabilities, research and development capabilities, and employees with special skills. The fundamental thesis of R-B theory is that resources (to varying degrees) are both significantly heterogeneous across firms and imperfectly mobile. Resource heterogeneity means that each and every firm has an assortment of resources that is at least in some ways unique. Imperfectly mobile implies that firm resources, to varying degrees, are not commonly, easily, or readily bought and sold in the marketplace (the neoclassical factor markets). Because of resource immobility, resource heterogeneity can persist through time, despite attempts by firms to acquire the same resources of particularly successful competitors.

As does the evolutionary theory of the firm (Foss 1993), R-B theory in business strategy traces to the long-neglected work of Penrose (1959). Consciously avoiding the term "factor of production" because of its ambiguity, she viewed the firm as a "collection of productive resources" and pointed out that "it is never resources themselves that are the inputs to the production process, but only the services that the resources can render" (pp. 24–25; italics in original). Viewing resources as bundles of possible services that an entity can provide, "It is the heterogeneity ... of the productive services available or potentially available from its resources that gives each firm its unique character" (pp. 75, 77). Therefore, contrasted with the neoclassical notion of an optimum size of firm, "the expansion of firms is largely based on
opportunities to use their existing productive resources more efficiently than they are being used” (p. 88).


Barney (1991, 1992) develops R-B concepts and their interrelationships in greater detail than had hitherto been done. First, he defines firm resources to “include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc., controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness” (Barney, 1991, 101). (Note that his definition is very broad and focuses on an entity’s ability to efficiently and/or effectively create value.) He points out that if all firms in an industry have homogeneous, perfectly mobile resources, then all firms will implement the same strategies equally well and no firm can have a competitive advantage. Therefore, only resources that are heterogeneous, imperfectly mobile and asymmetrically distributed amongst rivals, i.e. are rare, can generate competitive advantage and superior financial performance.

Second, Barney (1991) points out that heterogeneity and immobility alone do not guarantee it sustained competitive advantage. Sustainability occurs only when rivals find it difficult both to imitate the competitive advantage-producing resource and develop or acquire strategic substitutes for it. Imperfect imitability results from (1) unique historical circumstances (e.g. buying a piece of property that later provides a locational advantage), (2) causally ambiguous resources, and (3) socially complex resources.

Third, Barney (1992, 45) describes socially complex resources as those “that enable an organization to conceive, choose, and implement strategies because of the values, beliefs, symbols, and interpersonal relationships possessed by individuals or groups in a firm”. Examples include organizational culture, trust, reputation among customers and managerial teamwork. As to physical technology, it is customarily imitable. However, the ability to exploit physical technology often involves socially complex phenomena, e.g. social relations and/or a culture, that is imperfectly imitable. Hence, the exploitation of physical technology can often sustain a competitive advantage. Barney (1991) concludes by introducing a social welfare issue:

The resource-based model developed here suggests that, in fact, strategic management research can be perfectly consistent with traditional social welfare concerns of economists. Beginning with the assumptions that firm resources are heterogeneous and immobile, it follows that a firm that exploits its resource advantages is simply behaving in an efficient and effective manner . . . To fail to exploit these resource advantages is inefficient and does not maximize social welfare. (p. 116)

Conner (1991) reviews R-B theory and concludes that it is similar to I-B theory in that both view persistent, above-normal returns to be possible. R-B theory differs, however, in that (1) restraints on output through monopolistic or collusive action or artificial entry barriers are not primary sources of superior performance, (2) the firm (not the
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industry is the appropriate unit of analysis for understanding superior performance, and (3) industry structure does not determine firm behavior. Compared with Schumpeter (1950), similarities are that (1) superior performance can result from new ways of competing, (2) entrepreneurship is important, and (3) potential imitators always exist. R-B theory differs from Schumpeter, however, in that (1) imitators are constrained by difficult-to-copy resources and (2) superior performance can result from less than "revolutionary" innovations.

Perhaps the greatest limitation of R-B theory is that it only partially accounts for how firms can develop strategies that allow them to exploit their individual resources (Lewis and Gregory 1996). The lack of a "bridge between resources (defined very broadly) and strategy" leaves an incomplete model for "explaining firm success, growth, failure" (Lewis and Gregory 1996, 146). Therefore, a holistic internal explanation of business strategy requires a complementary, dynamic, internal theory of business strategy. Such a theory, many argue, is competence-based strategy.

Competence-based Theory

A second "internal factors" theory of business strategy is competence-based (C-B) theory, which complements R-B theory because it explains how firms develop "strategies to exploit these ... [resources and], consideration has been given to their idiosyncratic nature, the links between them and the activities that utilize them" (Rumelt 1984). The term "distinctive competence" traces to Selznick (1957) and was used by Andrews (1971) and his colleagues in the SWOT model to refer to what an organization could do particularly well — or even acceptably — languished. (Notable exceptions include Hofer and Schendel's (1978) discussion of competences as patterns of resource and skill deployment and the empirical works of Snow and Hrebiniak (1980) and Hitt and Ireland (1985, 1986) on activities within functional areas as sources of competence.)

Stimulating the development of C-B theory in the early 1990s were the works of Chandler (1990), Hamel and Prahalad (1989, 1994a,b), Lado et al. (1992), Prahalad and Hamel (1990, 1993), Reed and De Filippi (1990) and Teece and Pisano (1994). Numerous theoretical and empirical articles have been developing C-B theory (Aaker 1997; Bharadwaj et al. 1993; Day and Nedungadi 1994; Hamel and Heene 1994; Heene and Sanchez 1996; Sanchez and Heene 1997; Sanchez et al. 1996). For example, Prahalad and Hamel (1990, 81) argue that "the firm" should be viewed as both a collection of products or SBUs and a collection of competences because "in the long run, competitiveness derives from an ability to build, at lower cost and more speedily than competitors, the core competencies that spawn unanticipated products". Core competences (1) provide access to a wide variety of markets, (2) make a significant contribution to customers' perceptions of benefits, and (3) are difficult for rivals to imitate. It is from core competences that both core products and ultimate, end products emerge. Because core competences, unlike physical assets, do not deteriorate with use but are enhanced as they are applied and shared, top management should foster strategic innovations and growth by sending a message to middle managers: "the people critical to core competencies are corporate assets to be deployed by corporate management" (Prahalad and Hamel 1990, 90).

C-B theorists argue that their theory is a logical extension of R-B theory. Lado et al. (1992), building on Reed and De Phillippi (1990), suggest that it is managerial competences and strategic focus that lead to the development of R-B, output-based and

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transformation-based competences. These competences “do not merely ‘accrue’ to the firm (from a good ‘fit’ with industry/environmental requirements), but may consciously and systematically be developed by the willful choices and actions of the firm’s strategic leaders” (p. 78). Therefore, “achieving and sustaining a competitive advantage position requires that managers focus on developing and nurturing their firms’ idiosyncratic competencies that inhibit imitability” (p. 88). By the early 1990s, most theorists in business strategy acknowledged that R-B theory and C-B theory were complementary. Indeed, as one of their “starting premises”, Hamel and Prahalad (1994a, 157) state:

The first premise is that the firm can be conceived of as a portfolio of resources (technical, financial, human, and so forth), as well as a portfolio of products or market-focused business units. A growing body of academic research and writing takes such a “resource-based view of the firm.”

For Hamel and Prahalad (1994a), business strategy is not about finding a good fit between existing resources (competences) and existing opportunities, it is a focus on industry foresight and competence leveraging. Foresight involves anticipating the future by asking what new types of benefits firms should provide their customers in the next 5–15 years and what new competences should be acquired or built to offer such benefits. Resource-leveraging focuses on the numerator in the productivity equation. Specifically, they argue that too much attention in analyses of firm productivity has been devoted to resource efficiency – the denominator – and too little on resource effectiveness the numerator. For them, productivity gains and competitive advantage come through the resource-leveraging that results from “more effectively concentrating resources on key strategic goals, ... more efficiently accumulating resources, ... complementing resources of one type with those of another to create higher-order value, ... conserving resources wherever possible, and ... rapidly recovering resources by minimizing the time between expenditure and payback” (Hamel and Prahalad 1994a, 160).

The works of Hamel and Heene (1994), Heene and Sanchez (1996) and Sanchez et al. (1996) further develop the formal requirements of C-B theory by explicating (1) terminological issues, (2) firms as goal-seeking, open systems, and (3) competitive dynamics. As to terminology, C-B theory has begun the important task of developing a conceptually adequate, internally consistent language for discussing strategy, the firm and competition. For example, Sanchez et al. (1996, 7–8) define: (1) assets as anything tangible or intangible the firm can use in its processes for creating, producing, and/or offering its products (goods or services) to a market; (2) capabilities as repeatable patterns of action in the use of assets to create, produce and/or offer products to a market; (3) resources as assets that are available and useful in detecting and responding to market opportunities or threats; and (4) a competence as an ability to sustain the coordinated deployment of assets in a way that helps a firm achieve its goals; (5) competence building as any process by which a firm achieves qualitative changes to its existing stocks of assets and capabilities, including new abilities to coordinate and deploy new or existing assets and capabilities in ways that help the firm achieve its goals; and (6) competence leveraging as a firm applying its existing competences to current or new market opportunities in ways that do not require qualitative changes in the firm’s assets or capabilities.

Heene and Sanchez (1996, 11) caution that “a firm must manage its competence(s) as a system and avoid excessive focusing of managerial attention on developing and managing a ‘single competence’ judged by some criteria to be ‘core’.” Furthermore, even though competence-based theory recognizes that “strictly speaking, capabilities are included in the term assets, it speaks of ‘assets
and capabilities’ because capabilities are such an important category of assets” (Sanchez et al. 1996, 7).

As to the firm’s goals, C-B theory views firms as having complex sets of strategic goals that must be managed holistically (Heene and Sanchez 1996). As such, the firm is a goal-seeking, open system of interrelated tangible and intangible assets guided by a strategic logic. A firm’s strategic logic refers to the rationale(s) employed (explicitly or implicitly) by decision makers in the firm as to how specific deployments of resources are expected to result in an acceptable level of attainment of the firm’s goals. Management processes, therefore, include all the activities designed to carry out the strategic logic. For C-B theory, a key management task is “maintaining the effectiveness of the firm’s competence building and leveraging processes by achieving consistency of strategic logic throughout the firm” (Sanchez et al. 1996, 10).

With respect to competitive dynamics, C-B theory acknowledges that firms may at times find themselves in a steady-state environment. More typical, however, is the dynamic state where “managers in at least one firm change their assessments of the gap between the perceived and desired states of one or more system elements, modify the firm’s goals, and begin to take gap-closing actions” (Sanchez et al. 1996, 13). At such times of dynamic competition, “the interactions of firms that create dynamic competitive environments as they seek goal attainment through leveraging and building competences may therefore be likened to a state of perpetual corporate entrepreneurialism in which continuous learning about how to build new competences and leverage existing competences more effectively becomes a new dominant logic” (Sanchez et al. 1996, 14).

C-B theory is still very much a work in progress. Although advances have been made with respect to developing nomenclature, inconsistent terminology still prevails (Lewis and Gregory 1996). A major contributor to terminological inconsistency is the lack of integration that exists among the various disciplines that have contributed to research on C-B theory. As noted by Lewis and Gregory (1996, 146), “[t]he diverse sources of the literature has meant that the field lacks cumulative theory building”. Other limitations are that, like R-B theory, has yet to incorporate systematically the external-to-the-firm factors that affect the success of business strategy, and “there is a lack of practical application and empirical evidence to support theorizing” (Lewis and Gregory 1996, 146).

Marketing Strategy

Marketing strategy prior to the 1980s had little to do with strategy in today’s use of the word (Day and Wensley 1983; Wind and Robertson 1983). Although marketing was based on the premise of the marketing concept, which is highly strategic in nature, research in the 1960s and 1970s focused on micro-marketing management concerns. Marketing management research focused on developing the marketing program, often referred to as the marketing mix, or “the four Ps”, in order to achieve micro-goals for certain products or product lines or brands. There was little consideration of the effect of marketing programs across product lines or on the general effectiveness of an organization (Day and Wensley 1983; Wind and Robertson 1983). In short, the study of marketing was tactical, not strategic, in nature.

The shortcomings of marketing management research in the 1960s and 1970s provided four broad research imperatives: (1) add a competitor orientation, (2) view the firm holistically, (3) expand the view of the firm to incorporate exchange relationships, and (4) develop an integrative paradigm that pulls these strategic considerations together (Day and Wensley 1983; Wind and Robertson 1983). Since these calls to increase the strategic orientation of marketing were made, marketing scholars have made substantial progress in all four suggested areas. Three
streams, in particular, have elevated the state-of-the-art of research by marketing scholars on business strategy: market orientation, relationship marketing and resource-advantage theory. These marketing streams, we argue, also contribute to industry-based, resource-based and competence-based business strategy theory. In the following review of these three marketing streams, we discuss (1) the nature of each stream, (2) show how it contributes to I-B, R-B, and/or C-B business strategy theory, and (3) examine the limitations of each stream.

**Market Orientation and Business Strategy**

If there were any contribution that marketing could make to business strategy that might be considered universally to be uniquely marketing, it would be that of *market orientation* (MO). MO traces to the marketing concept that was developed in the 1950s and 1960s. MO is considered by many as a *measure* of the behaviors and activities that reflect the marketing concept (Barksdale and Darden 1971; Kohli and Jaworski 1990; Kotler 1984; Kotler and Andreasen 1987; Levitt 1960; McNamara 1972; Webster 1988). Note Hunt and Morgan (1995, 11):

> The marketing concept maintains that (1) all areas of the firm should be customer-oriented, (2) all marketing activities should be integrated, and (3) profits, not just sales, should be the objective. As conventionally interpreted, the concept's customer-orientation component, that is, knowing one's customers and developing products to satisfy their needs, wants, and desires, has been considered paramount.

However, the marketing concept is not a strategy, but a philosophy that is theorized to be a key element of successful firms' cultures (Baker et al. 1994; Houston 1986; Wong and Saunders 1993). Deshpande and Webster (1989, 3) point out that “the marketing concept defines a distinct organizational culture ... that put[s] the customer in the center of the firm’s thinking about strategy and operations”. Thus, the marketing concept is a business culture that can guide the formulation and implementation of business strategy.

For almost 40 years, the marketing concept has been considered the cornerstone of marketing (Kotler 1984; Kotler and Andreasen 1987; Levitt 1960; Webster 1988). It was *assumed* that firms that embraced the marketing concept had organizational cultures that would facilitate the development of strategy that would lead to sustainable competitive advantage because such firms would better understand and meet customer needs (Aaker 1988; Kotler 1984; Kotler and Andreasen 1987; Narver and Slater 1990; Shapiro 1988; Webster 1988). However, as noted by Jaworski and Kohli as late as 1993, even though the marketing concept was presumed to be an important antecedent of business' strategic success, “remarkably, this fundamental issue (had) not been addressed in empirical study” (Jaworski and Kohli 1993, 53). This lack of empirical research on the effect of the marketing concept on business strategy and business success gave rise to research on MO.

Although MO was developed as a way to measure the extent to which a firm implements the marketing concept, it has evolved into more than simply a reflection of the marketing concept. In contrast to the marketing concept's single-minded focus on customers, MO has a dual focus on both customers and competitors. As such, MO *supplements* the marketing concept. Drawing on Kohli and Jaworski (1990) and Narver and Slater (1990), Hunt and Morgan (1995, 11) propose that MO is:

1. the systematic gathering of information on customers and competitors, both present and potential, 2. the systematic analysis of the information for the purpose of developing market knowledge, and (3) the systematic use of such knowledge to guide strategy recognition,
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understanding, creation, selection, implementation, and modification. We include potential customers to guard against the hazards of firms being “customer-led” (Hamel and Prahalad 1994), that is focusing only on the articulated needs, wants, and desires of present customers. We include potential competitors to guard against the hazards of changing technology resulting in new competitors.

Utilizing Hunt and Morgan’s (1995) view of MO, the distinction between MO and the marketing concept becomes more clear. Here MO can be seen as a “bridge” between the business strategy that may be selected and the organization’s culture/business philosophy. MO would guide strategy selection, while the marketing concept would guide “the use of the components of marketing orientation by reminding managers to keep customers, as Webster (1992) puts it, ‘on a pedestal,’ because they always have the ‘final say’” (Hunt and Morgan 1995, 11).

A recent area of inquiry is the effect of MO on organizational learning. Indeed, Slater and Narver (1995, 63) suggest that MO “‘provides the cultural foundation for organizational learning’”. Organizational learning is the process of gaining knowledge or insights that can potentially influence the behavior of an organization (Fiol and Lyles 1985; Huber 1991; Simon 1959; Sinkula 1994). The process of organizational learning involves elements that are very similar to those of MO: information acquisition, dissemination and shared interpretation (Sinkula 1994). In addition, organizational learning, like MO, is used to provide superior value to customers (Day 1994; Dickson 1992; Fiol and Lyles 1985; Garvin 1993; Senge 1990; Sinkula 1994). Thus, Slater and Narver (1995, 63) argue that MO is an inherent part of the organizational learning process:

the critical challenge for any business is to create the combination of culture and climate that maximizes organizational learning on how to create superior customer value … We argue that (MO) provides strong norms for learning from customers and competitors, it must be complemented by entrepreneurship and appropriate organizational structures and processes for higher-order learning … In summary, the cultural values of a MO are necessary, but not sufficient, for the creation of a learning organization.

On the whole, empirical research on MO indicates that it contributes to competitive advantage (Jaworski and Kohli 1993; Narver and Slater 1990). Narver and Slater (1990) find empirical support for MO’s having a significant linear positive effect on profitability for non-commodity businesses. They also find a significant, non-linear, positive relationship between MO and profitability for commodity businesses: commodity firms with moderate MO had lower profitability than those with low MO, but those with high MO had the highest profitability of all. Based on these findings, Narver and Slater (1990) suggest that the MO/profitability relationship for commodity businesses is U-shaped.

Jaworski and Kohli (1993) examine empirically (1) the posited antecedents and MO, (2) MO’s effect on employees, and (3) the moderating effect of selected environmental variables (market turbulence, competitive intensity and technological turbulence) on business performance. With respect to antecedents of MO, they find that top management acceptance and encouragement of MO has a positive effect on MO, centralization of organizational decision-making inhibits MO, and close and harmonious interdepartmental relationships foster MO. With respect to outcomes, they find that MO increases the business performance of an organization, the esprit de corps of employees, and commitment to the organization.

In summary, empirical research on MO since 1990 has provided support for the previously assumed marketing strategy tenet that firms that adopt an overarching strategic stance of MO will outperform firms who do not. Also, this research indicates that, regardless of industry conditions, the positive relationship between MO and business performance remains. In addition, this body
of research suggests that MO leads to additional outcomes that also positively affect business performance namely, employee commitment to an organization and the ability of an organization to learn.

Market Orientation and Industry-based Theory

Environmental variables proposed to moderate the effect of MO come from I-B theory, which suggests that an industry’s environmental characteristics affect firm performance (Day and Wensley 1988; Porter 1985). For example, Slater and Narver (1994, 46, 47) draw on I-B theory to hypothesize that “being market oriented does not have as strong an influence on performance under high demand conditions as when demand is weak”. However, empirical research finds little support for the notion that industry conditions moderate the effectiveness of MO. Indeed, Jaworski and Kohli (1993) find no empirical support for the hypothesized moderating effects of market turbulence, competitive intensity and technological turbulence on the relationship between MO and performance. The finding of no relationship between competitive environment and the relationship between MO and performance is supported by later research conducted by Slater and Narver (1994). As they explain:

Why should a market-orientation business necessarily be influenced by “environmental moderators”? With its external focus and commitment to innovations, a market-oriented business should be prepared to achieve and sustain competitive advantage in any environmental situation. Indeed, a substantially market-oriented business should find more opportunity in any environment than its less market-oriented competitors. (p. 53)

Market Orientation and Resource-based Theory

A resource is defined as “any tangible or intangible entity available to the firm that enables it to produce efficiently and/or effectively a market offering that has value for some market segment(s)” (Hunt and Morgan 1995, 11). The term “entity” is a more appropriate label for MO than either “asset” or “skill”, because the concept of MO is neither. That is:

Although [MO’s] successful implementation requires skills, a market orientation is itself not a skill, nor is it more tangible than a skill … [However], a market orientation would be an intangible entity that would be a resource if it provided information that enabled a firm to produce, for example, an offering well tailored to a market segment’s specific tastes and preferences. (Hunt and Morgan 1995, 11)

Thus, given that MO is a resource, is it a resource that leads to competitive advantage? Firms that have an MO understand the importance of utilizing information about both customers and competitors when developing strategy. These firms can utilize knowledge about their competitors (e.g. product, prices and strategies) and knowledge about a customer segment to produce a market offering for a certain segment more efficiently and effectively than their competition (Glazer 1991). The factor that determines the degree to which an MO allows a firm to develop competitive advantage is the degree to which having an MO is unique, or rare, among competitors. Studies suggest that, indeed, an MO is rare (Jaworski and Kohli 1993; Narver and Slater 1990). In addition, research suggests that MO contributes not only to competitive advantage, but also sustainable competitive advantage (Hunt and Morgan 1995).

Market Orientation and Competence-based Theory

MO is both a resource and a competence. As discussed earlier, C-B theory has begun the process of developing a conceptually adequate, internally consistent nomenclature
for examining competition. Within this framework, “a competence is an ability to sustain the coordinated deployment of assets in a way that helps a firm achieve its goals” (Sanchez et al. 1997, 7–8). A competence is a form of resource, because the way it is defined (the “deployment of assets in a way that helps a firm achieve its goals”) makes it an “intangible entity” (in the definition of a resource) that allows a firm to compete more effectively.

Using C-B theory’s nomenclature, one may view a competence as being a higher-order resource that is a distinct combination of more basic resources (Hunt and Morgan 1995). For example, Sony’s “miniaturization” competence is a synergistic combination of tangible basic resources (e.g. specific machinery) and intangible basic resources (e.g. know-how) that allow Sony to compete more efficiently and effectively. Similarly, MO is a competence because it comprises a combination of more basic resources. To implement MO, firms deploy tangible resources, such as information systems to store, analyze and disseminate information about competitors and competition. In addition, firms use intangible resources to implement MO: organizational policies must be in-place to encourage MO action, and managers must have the knowledge and experience required to utilize customer and competitor information effectively.

Limitations of Market Orientation

Although there has been a substantial amount of research on MO, questions about MO remain. The validity of the measures of MO for both domestic and international business situations has been challenged (Cadogan and Diamantopoulos 1995; Siguaw and Diamantopoulos 1995). Also, MO lacks an underlying theory that could provide an explanatory mechanism for the positive relationship between MO and business performance. In addition, research on MO to date takes a single-firm perspective. A key orientation that is missing in the present conceptualization of MO is a firm’s partnering orientation. Because firms often create superior value for customers by collaborating with other organizations, firms that partner with other firms to compete must develop a strategy of MO that is inter-firm rather than intra-firm in nature. The antecedents, consequences, and measures of a business strategy of inter-firm MO are still lacking. Works on relationship marketing make a step in this direction.

Relationship Marketing and Business Strategy

A critical issue in marketing today is how do firms relate to their markets? As noted by industry observers, the business landscape is becoming more complicated because firms are increasingly taking on the simultaneous (and sometimes conflicting) roles of customer, competitor and collaborator. This problem has become particularly acute in instances where firms no longer compete head-to-head as individual entities. Instead, one often finds that a firm’s relationship with its market is defined by the constellation of firms of which it is a part and with which it competes against other constellations to achieve competitive advantage. These constellations or “networks” (Thorelli 1986) are built on a series of collaborative relationships, which fall under the rubric of relationship marketing (RM), and which have become a focal point for determining a firm’s interaction with its market.

Definitions of RM abound. For example, Berry (1983, 25) defines RM as “attracting, maintaining, and – in multi-service organizations – enhancing customer relationships”. Berry and Parasuraman (1991) propose that “relationship marketing ... concerns attracting, developing, and retaining customer relationships”. Gummesson (1994, 2) proposes that “relationship marketing ... is marketing seen as relationships, networks, and interaction”. Gronroos (1996, 11) states that “relationship marketing is to identify and
establish, maintain and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met; and that this is done by a mutual exchange and fulfillment of promises. Sheth and Parvatiyar (1994) define RM as “the understanding, explanation, and management of the ongoing collaborative business relationship between suppliers and customers”. Sheth and Parvatiyar (1995a) view RM as “attempts to involve and integrate customers, suppliers, and other infrastructural partners into a firm’s developmental and marketing activities”, and Morgan and Hunt (1994) propose that “relationship marketing refers to all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges”.

Although the various perspectives on RM differ, common to all is the view that, increasingly, firms are competing through developing relatively long-term relationships with such stakeholders as customers, suppliers, employees and competitors. Consistent with the Nordic School (Gronroos 1990; Gronroos and Gummesson 1985) and the IMP Group (Axelsson and Easton 1992; Ford 1990; Hakansson 1982), the emerging thesis seems to be: “To be an effective competitor (in the global economy) requires one to be an effective operator (in some network)” (Morgan and Hunt 1994). Indeed, for Sheth and Parvatiyar (1995a), the “purpose of relationship marketing is, therefore, to enhance marketing productivity by achieving efficiency and effectiveness”.

The study of RM as a strategic option to achieve competitive advantage in marketing arose from research on “relational” (MacNeil 1980) business-to-business exchange during the 1980s. Although relational exchange has been a topic of expanding interest in many disciplines (e.g. Gomes-Casseres 1987, 1989; Hamel and Prahalad 1994; Harrigan 1985a,b, 1988; Kanter 1994; Larson 1992; Moore 1993; Ouchi 1980; Ring and Van de Ven 1992, 1994), it is a topic that has a special appeal to researchers in the area of marketing. At least since the works of Bagozzi (1975), Hunt (1976) and Kotler (1972), definitions of the process of marketing have focused on exchange, which requires the establishment of some form of an exchange relationship between parties (Dwyer et al. 1987; Varadarajan and Cunningham 1995). As exchange in general (and especially business-to-business exchange) has become increasingly relational, some marketing scholars argue that a paradigm shift from transactional to relational exchange is occurring (Day 1995; Kotler 1991; Parvatiyar et al. 1992; Varadarajan and Rajaratnam 1986; Webster 1992), which is reflected in a growing body of marketing research that focuses on relational, business-to-business exchange relationships (e.g. Dwyer et al. 1987; Gundlach and Murphy 1993; Morgan and Hunt 1994).

When firms adopt relationship marketing, they rely heavily on “relational contracts” to govern the exchange process (MacNeil 1980). Such relational contracts are used when it becomes difficult for the involved parties to spell out the critical terms of a formal written contract (Goetz and Scott 1981). Indeed, the contract to the exchange becomes more relational-based as exchange contingencies and duties become less codifiable (Gundlach and Murphy 1993; Nevin 1995). To achieve the flexibility required in complex exchange where there are unforeseen circumstances, relational exchange is marked by high levels of cooperation, joint planning, and mutual adaptation to exchange partner needs (Gundlach and Murphy 1993; Hallen et al. 1991; Nevin 1995).

Relationship marketing is motivated by the parties’ mutual recognition that the outcomes of relational exchange exceed those that could be gained from either another form of exchange or exchange with a different partner (e.g. Anderson and Narus 1984, 1990; Dwyer et al. 1987; Nevin 1995). The critical governance mechanism in relational exchange and, therefore, a key determinant of relational exchange success is the relationship. Simply
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Research on RM has utilized social exchange theory to examine the variables that make for a successful relationship. These “success models” (Wilson 1995) have been used to determine the degree to which relational exchange variables, such as trust, are achieved and/or the degree to which elements of relational exchange lead to enhanced exchange performance. Thus, the dependent variable in these models is the degree to which the relationship that governs the exchange interactions between the partners is indeed relational, and the independent variables in these models are the antecedents of these relational variables. Much research on success models focuses on trust and commitment.

Trust has been described as the most important or “key” variable in relational exchange by social exchange theorists (Blau 1964; Homans 1958) and researchers of business-to-business marketing (Dwyer et al. 1987; Morgan and Hunt 1994; Smith and Barclay 1997; Weitz and Bradford 1999; Wilson 1995). Trust has been defined as the belief in an exchange partner’s: reliability and integrity (Morgan and Hunt 1994), credibility and benevolence (Ganesan 1994; Geyskens et al. 1999), and word that an obligation will be fulfilled (Blau 1964; Moorman et al. 1993; Schurr and Ozanne 1985). Trust develops through social exchange in which relationships develop through interactions over time (Hakansson and Wootz 1979; Nevin 1995). As firms fulfill promises to exchange partners, trust increases and allows firms to engage in larger, often riskier transactions (Dwyer et al. 1987).

Numerous authors have empirically tested trust as a relational variable. They find it positively related to commitment (Geyskens et al. 1999; Morgan and Hunt 1994), cooperation (Anderson and Narus 1990; Morgan and Hunt 1994), functional conflict (Morgan and Hunt 1994), communication (Anderson and Narus 1990; Morgan and Hunt 1994), shared values (Morgan and Hunt 1994), and satisfaction (Anderson and Narus 1990; Geyskens et al. 1999) and negatively related to conflict (Anderson and Narus 1990; Geyskens et al. 1999), opportunistic behavior (Morgan and Hunt 1994), and uncertainty (Morgan and Hunt 1994).

Commitment plays a key role in RM research in differentiating relational from non-relational economic exchange, and has been defined as “an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely” (Morgan and Hunt 1994, 23). It is an implicit or explicit pledge of relational continuity (Dwyer et al. 1987; Gundlach and Murphy 1993) that distinguishes the “stayers from leavers” (Wilson 1995). Committed firms are more likely to take risks with their exchange partners (Gundlach et al. 1995) and make short-term sacrifices for the long-term
benefit of the relationship (Geyskens et al. 1999). Commitment allows firms to develop relational norms and seek long-term benefits while enduring short-term sacrifices. Morgan and Hunt’s (1994) empirical study finds that commitment (1) positively influences acquiescence and cooperation and (2) negatively influences propensity to leave. They also find that trust, shared values and relationship termination costs are positively related antecedents of commitment. The trust commitment relationship is also supported in a recent meta-analysis by Geyskens et al. (1999).

Relationship Marketing and Industry-based Theory

To a large degree, RM is a strategic response to industry conditions. As noted earlier, as competitive advantage is increasingly being seen as resulting from a collaborative effort between two or more firms, competition becomes less firm versus firm and more groups of firms versus other groups of firms (Achrol 1997; Day 1995; Webster 1992). Thus, RM has become a mechanism that firms use to alter the structure of industries to increase their ability to compete or to increase their market power (Day 1995; Varadarajan and Cunningham 1995; Webster 1992).

For example, firms have used a form of relationship marketing known as “alliances” in an effort to become more efficient and/or effective (Bucklin and Sengupta 1993; Day 1995; Heide and John 1990; Varadarajan and Cunningham 1995). Alliances have been defined as “the pooling of skills and resources by the alliance partners, in order to achieve one or more goals linked to the strategic objectives of the cooperating firms” (Varadarajan and Cunningham 1995, 283). The key with these relationships is to partner with firms that provide complementary resources or competences that result in cost and/or differentiation advantages that increase firm efficiency or effectiveness (Day 1995; Varadarajan and Cunningham 1995).

The growing popularity of RM is changing the way firms develop and sustain competitive advantage in response to external industry conditions. As a result, RM has added another dimension to the calculus that must be applied to I-B theory when it is used to explain competitive advantage: the strategic relationships between firms. The ability of firms to partner affects their ability to respond to external factors. No longer is it sufficient to analyze an industry based on firms acting alone. A consideration of inter-firm cooperation must exist.

Relationship Marketing and Resource-based Theory

RM expands the view of resources to entities that are available outside the firm that enable the firm to produce efficiently and/or effectively a market offering that has value for some market segment(s). This expanded view emphasizes that resources need not be owned by a firm, just available to it. RM can assist firms in gaining access to basic and higher-order resources possessed by other firms. As discussed earlier, these resources lead to competitive advantage when they are rare and cannot be duplicated by competition. Strategic alliances illustrate how these resources may be heterogeneous in nature. For example, the alliance between Ford and Mazda provides both companies with resources that differ significantly from that of General Motors and its partner Toyota.

Relationship Marketing and Competence-based Theory

RM is also a competence because it is a higher-order resource that is a distinct combination of more basic resources. That is, some firms are simply better at – have a competence for – developing relationships with others (Hunt and Morgan 1995). Having a RM competence allows firms to compete more efficiently and effectively by
allowing such firms to work with other firms in such a fashion as to be able to take advantage of their resources and competences.

Recent research in marketing has begun to explore RM competence (Day 1995; Hunt 1997; Varadarajan and Cunningham 1995). This competence allows firms to evaluate which relationships to enter into by allowing them to determine which potential partners have the complementary resources or competences that are needed (Hunt 1997). In addition, a RM competence helps firms that possess it to develop a relationship that will maximize the competitive advantage potential of the entities shared between the firms. The relationship has a greater chance of being productive because firms that have such a competence will not only be more likely to choose partners that will exhibit relational norms, but also these firms understand the value of exhibiting relational norms themselves (Weitz and Jap 1995). As described by Day (1995, 299), firms that have a RM competence have a deep base of experience that is woven into a core competency that enables them to outperform rivals in many aspects of … [relational exchange] management. They have well-honed abilities in selecting and negotiating with potential partners, carefully planning the mechanics of the [relationship] so roles and responsibilities are clear-cut, and continually reviewing the fit of the … [relationship] to the changing environment. Throughout the life of the … [relationship], their commitment is never in doubt.

**Limitations of Relationship Marketing**

Two observations on RM and its “cooperate-to-compete” thesis should be made. First, theoretically grounding the thesis requires a theory of competition that is radically different from neoclassical theory. This is because neoclassical theory customarily views firms’ cooperating as constituting anti-competitive collusion. Second, none of the previously cited authors naïvely maintains that a firm’s efficiency and effectiveness are always enhanced by establishing relationships with all potential stakeholders. Clearly, advocates of RM recognize that firms should at times avoid developing certain relationships. As Gummesson (1994, 15) observes, “Not all relationships are important to all companies all the time … some marketing is best handled as transaction marketing”. Indeed, he counsels: “Establish which relationship portfolio is essential to your specific business and make sure it is handled skillfully” (p. 15). As to how to determine the composition of the portfolio, he urges firms to “calculate the cost and revenue of the relationships and ultimately the contribution to profits from the portfolio” (p. 17).

However, as Gummesson (1994) points out, determining which relationships should go into the relationship portfolio by explicitly calculating the profitability of each prospective relationship is extraordinarily difficult – if not, at least sometimes, impossible. Therefore, addressing the conundrum of establishing an optimum relationship portfolio requires examination of why some relationship portfolios, some relationship “mixes”, are in general, more profitable than others. More specifically, under what circumstances will firms’ developing relationships with such entities as suppliers, competitors, employees and customers likely lead to enhanced financial performance?

A major limitation of RM is the same as for business strategy: neither is integrated within a general theory of competition. Indeed, I-B strategy is presumptively anti-competitive and anti-social (Hunt 1999a). The “resource-advantage theory of competition”, as developed in Hunt (1995, 1997a,b,c,d, 1999, 2000a,b,c), Hunt and Duhan (2000) and Hunt and Morgan (1995, 1996, 1997) appears to provide a theoretical foundation for both RM and business strategy. Specifically, resource advantage (R-A) theory offers a unifying theory of competition that incorporates the various theories of business strategy.
Resource-advantage Theory and Business Strategy

R-A theory (1) is an evolutionary, dynamic, process theory (Hunt 1997a; Hunt and Morgan 1996), (2) contributes to explaining observed differences in productivity between market-based and command economies (Hunt 1995; Hunt and Morgan 1995, 1997), (3) accommodates path dependencies (Hunt and Morgan 1996), (4) provides a theoretical foundation for endogenous growth models (Hunt 1997c), and (5) contributes to explaining how societal institutions, such as those that promote trust, can be productivity enhancing (Hunt 1997b).

Figures 1 and 2 provide a schematic depiction of R-A theory's key constructs, and Table I shows its foundations. Because R-A theory draws heavily on Austrian economics and the Schumpeterian tradition in evolutionary economics, (1) innovation and organizational learning are endogenous to R-A competition, (2) firms and consumers have imperfect information, and (3) entrepreneurial competence and institutions affect economic performance. Because R-A theory incorporates marketing’s heterogeneous demand theory, intra-industry demand is viewed as significantly heterogeneous as to consumers’ tastes and preferences. Therefore, different market offerings are required for different market segments in the same industry. Because it adopts a resource-based view of the firm, firms are theorized to be combiners of heterogeneous, imperfectly mobile resources. Combining the resource-based view of the firm with heterogeneous demand and imperfect information results in diversity in the sizes, scopes and levels to profitability of firms. This diversity exists not only across industries but for firms within the same industry.

R-A theory stresses the importance of market segments, a comparative advantage (disadvantage) in resources, and marketplace positions of competitive advantage (disadvantage). Market segments are intra-industry groups of consumers whose tastes and preferences for an industry’s output are relatively homogeneous. (The ultimate segment is, of course, a segment of one.) Resources are the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s). Because many of the resources of firms within an industry are significantly heterogeneous and relatively immobile, some firms will have a comparative advantage and others a comparative disadvantage in efficiently and/or effectively producing market offerings that have value for particular market segments. Specifically, when firms have a comparative advantage (disadvantage) in resources, they will occupy marketplace positions of competitive advantage (disadvantage), as shown in Figure 1 and further explicated in the nine marketplace positions in Figure 2. Marketplace positions of competitive advantage (disadvantage) then result in superior (inferior) financial performance.

Firms occupying positions of competitive advantage (cells 2, 3, and 6 in Figure 2) can continue to do so if (1) they engage in proactive innovation, (2) they continually reinvest in the resources that produced the competitive advantage, and/or (3) rivals’ acquisition and reactive innovation efforts fail. Rivals will fail (or take a long time to succeed) when an advantage-producing resource is either protected by such societal institutions as patent or it is causally ambiguous, socially complex, highly interconnected, tacit, or has time compression diseconomies or mass efficiencies.

R-A theory defines competition as the disequilibrating process that consists of the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance. The nature of competitive processes and how well they work (e.g. how effectively competition produces economic growth) are significantly influenced by five environmental factors: the societal resources on
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Figure 1. A Schematic of the Resource-Advantage Theory of Competition. Read: Competition is the disequilibrating, ongoing process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, thereby, superior financial performance. Firms learn through competition as a result of feedback from relative financial performance "signaling" relative market position, which in turn signals relative resources. Source: Hunt and Morgan (1997).

Relative Resource-Produced Value

<table>
<thead>
<tr>
<th>Relative Resource Costs</th>
<th>Lower</th>
<th>Parity</th>
<th>Superior</th>
</tr>
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<tbody>
<tr>
<td>Lower</td>
<td>1 Indeterminate Position</td>
<td>2 Competitive Advantage</td>
<td>3 Competitive Advantage</td>
</tr>
<tr>
<td>Parity</td>
<td>4 Competitive Disadvantage</td>
<td>6 Parity Position</td>
<td>6 Competitive Advantage</td>
</tr>
<tr>
<td>Higher</td>
<td>7 Competitive Disadvantage</td>
<td>8 Competitive Disadvantage</td>
<td>9 Indeterminate Position</td>
</tr>
</tbody>
</table>

Figure 2. Competitive Position Matrix. Read: The marketplace position of competitive advantage identified as cell 3 results from the firm's, relative to its competitors, having a resource assortment that enables it to produce an offering for some market segment(s) that (a) is perceived to be of superior value and (b) is produced at lower costs. Source: Hunt and Morgan (1997).
Table 1. Foundational premises of perfect competition and resource-advantage theory

<table>
<thead>
<tr>
<th></th>
<th>Perfect competition theory</th>
<th>Resource-advantage theory</th>
</tr>
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<tbody>
<tr>
<td>P1. Demand is:</td>
<td>heterogeneous across industries, homogeneous within industries, and static.</td>
<td>heterogeneous across industries, heterogeneous within industries, and dynamic.</td>
</tr>
<tr>
<td>P2. Consumer information is:</td>
<td>perfect and costless.</td>
<td>imperfect and costly.</td>
</tr>
<tr>
<td>P3. Human motivation is:</td>
<td>self-interest maximization.</td>
<td>constrained self-interest seeking.</td>
</tr>
<tr>
<td>P4. The firm’s objective is:</td>
<td>profit maximization.</td>
<td>superior financial performance.</td>
</tr>
<tr>
<td>P5. The firm’s information is:</td>
<td>perfect and costless.</td>
<td>imperfect and costly.</td>
</tr>
<tr>
<td>P6. The firm’s resources are:</td>
<td>capital, labor, and land.</td>
<td>financial, physical, legal, human, organizational, informational, and relational.</td>
</tr>
<tr>
<td>P7. Resource characteristics are:</td>
<td>homogeneous and perfectly mobile.</td>
<td>heterogeneous and imperfectly mobile.</td>
</tr>
<tr>
<td>P8. The role of management is:</td>
<td>to determine quantity and implement production function.</td>
<td>to recognize, understand, create, select, implement, and modify strategies.</td>
</tr>
<tr>
<td>P9. Competitive dynamics are:</td>
<td>equilibrium-seeking, with innovation exogenous.</td>
<td>disequilibrium-provoking, with innovation endogenous.</td>
</tr>
</tbody>
</table>

Note: The foundational premises of R-A theory are to be interpreted as descriptively realistic of the general case. Specifically, P1, P2, P5 and P7 for R-A theory are not viewed as idealized states that anchor end-points of continua. For example, P1 posits that intra-industry demand in most industries (i.e. the general case) is substantially heterogeneous, not perfectly heterogeneous. In contrast, P1 for perfect competition assumes the idealized state of perfect homogeneity.


which firms draw, the societal institutions that form the “rules of the game” (North 1990), the actions of competitors and suppliers, the behaviors of consumers, and public policy decisions.

Resource-advantage and Industry-based, Resource-based, and Competence-based Theories

R-A can be thought of as an integrative theory of business strategy – bringing together I-B, R-B and C-B theories – because it draws extensively on, and shares many affinities with, the business strategy literature. As will be shown, it incorporates (1) the external-to-the-firm view provided by the I-B theory of business strategy, (2) the internal-to-the-firm view provided by the R-B and C-B theories of business strategy, and (3) marketing’s contributions (in the form of MO and RM) to business strategy.

First, R-A theory shares with industry-based theory the view that the firm’s objective is superior financial performance and that the proximate cause of superior financial performance is marketplace position. For R-A theory (see Figures 1 and 2), superior (parity, inferior) financial performance results from marketplace positions of competitive advantage (parity, disadvantage).

Secondly, R-A theory agrees that a “stress on resources must complement, not substitute for, stress on market positions” (Porter 1991, 108). Indeed, R-A theory integrates the marketplace position view with the resource view by positing that it is a comparative advantage (disadvantage) in resources that results in marketplace positions of competitive advantage (disadvantage) and superior (inferior) financial performance. Therefore, R-A theory provides an explanation for Porter’s (1991) claim that some firms are superior to others in performing value-chain activities: such superior-performing firms have a comparative advantage in resources, e.g. specific competences related to specific value-producing activities.
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Third, R-A theory agrees that competitors, suppliers and customers influence the process of competition and firm performance (see Figure 1). However, it disagrees with “Bain-type” IO that industry structure entirely determines performance. Furthermore, it disagrees with industry-based strategy that “industry” is the major determinant of performance. Empirical research indicates that it is idiosyncratic firm factors, not industry factors, that explain most of the variance in firm performance. Industry is the “tail” of competition; the firm is the “dog” (Hunt and Duhan 2000).

Fourth, as to resource-based theory, R-A theory specifically adopts a resource-based view of the firm. Defining resources as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s), R-A theory views firms as combiners of heterogeneous, imperfectly mobile resources that are historically situated in space and time. The premise that firms combine heterogeneous resources contributes to R-A theory’s ability to explain firm diversity in size, scope, and financial performance. The premise that many firm resources are imperfectly mobile (i.e. not readily available for acquisition in the factor markets) contributes to R-A theory’s ability to explain how some firms can have sustained, superior financial performance despite the efforts of rivals. Specifically, rivals will fail (or take a long time to succeed) to acquire, imitate or find substitutes for a competitor’s advantage-producing resource when it is either protected by such societal institutions as patents or it is causally ambiguous, socially complex, highly interconnected, tacit or has time compression diseconomies or mass efficiencies.

Fifth, both resource-based theory and R-A theory draw on the historical tradition (Chandler 1990) and view firms and their resources as historically situated entities. Indeed, historical “accidents” and luck can contribute to explaining firm performance. For example, a retailer’s location may become valuable because, long after the site is chosen, a freeway is built adjacent to it. Therefore, “the firm” in R-A theory is not a mathematical abstraction to which the mathematics of calculus can be applied. Nonetheless, R-A theory is argued to be a general theory of competition that incorporates the production function, mathematical abstraction of the firm in neoclassical theory as a special case (Hunt 2000). Therefore, R-A theory shows when the production-function view of the firm will predict well.

Sixth, R-A theory agrees with competence-based theory that competition is fundamentally dynamic, i.e. disequilibrium provoking. For R-A theory, the quest for superior financial performance (i.e. more than, better than) is the major driver of dynamism in R-A competition. Because all rivals cannot be simultaneously superior, competition stimulates the proactive and reactive innovations that ensure dynamism. Proactive innovation is innovation by firms that, though motivated by the expectation of superior financial performance, is not prompted by specific pressures from specific competitors. As such, it is genuinely entrepreneurial in the classic sense of entrepreneur, i.e. in the sense of spotting new opportunities and subsequently developing market offerings (Kirzner 1979).

Contrasted with proactive innovation, reactive innovation is directly prompted by the learning process of firms’ competing for the patronage of specific market segment(s). Firms learn through competing as a result of the feedback from relative financial performance signaling relative marketplace position, which in turn signals relative resources (see Figure 1). When firms competing for a market segment learn from their inferior financial performance that they occupy positions of competitive disadvantage (cells 4, 7, and 8 in Figure 2), the goal of superior performance motivates them to attempt to neutralize and/or leapfrog the advantaged firm (or firms) by acquiring the resource and/or reactive innovation.
Seventh, R-A theory agrees with competence-based theory that firms learn. For competence-based theory, because organizational knowledge is fundamental to organizational competence, a key question is how organizations learn. Defining organizational knowledge as “the shared set of beliefs about causal relationships held by individuals within a group”, competence-based theory views organizational learning as the “flows that lead to a change in the stocks of beliefs within the organization” (Sanchez and Heene 1997, 6). Therefore, “strategically important organizational learning consists both of the process for creating new knowledge within individuals and groups within a firm ... and processes to leverage knowledge effectively within and across organizations” (Sanchez and Heene 1997, 8).

Similarly, R-A theory recognizes that firms learn in many ways, e.g. by conducting formal marketing research, dissecting competitors’ products, ‘benchmarking’, competitive intelligence, and test marketing. What R-A theory emphasizes is how the process of competition itself contributes to organizational learning: firms learn by competing as a result of feedback from relative financial performance signaling relative marketplace position, which in turn signals relative resources (see Figure 1). Through competition, firms come to know (or believe that they know) their relative resources and marketplace positions.

To summarize, R-A theory can provide a theory of competition within which business strategy can be integrated because it (1) agrees that a firm’s objective is superior financial performance, (2) integrates I-B and R-B views, (3) agrees that industry structure influences competition, (4) specifically adopts a resource-based view of the firm, (5) draws on historical tradition, (6) agrees that competition is dynamic and disequilibrium provoking, and (7) accounts for learning through competition.

Conclusion

Although overlooked to some degree by non-marketing disciplines, the discipline of marketing has contributed significantly to the body of knowledge on business strategy over the last two decades. This paper evaluates these contributions, examines how they complement dominant non-marketing theories of business strategy, and shows how marketing offers a generalized theory of competition that integrates the concepts of both marketing and non-marketing theories of business strategy.

The key research streams in marketing that have made the greatest contribution to business strategy are MO, RM and R-A theory. MO has operationalized and extended the concept of marketing concept - the cornerstone theory of marketing as a discipline. RM extends research on the development of competitive advantage from an intra-firm to an inter-firm process through the acknowledgement of the independence of firms in exchange relationships. Also, much of research on MO, RM and R-A theory complements and extends the business strategy research on I-B theory, R-B theory and C-B theory. In addition, marketing’s R-A theory offers a theory of competition that integrates the I-B, R-B and C-B theories, along with research on the marketing streams of MO and RM.

For both the marketing and non-marketing audience, it is hoped that this article has shed light on marketing’s contribution and potential future contribution to the study of business strategy. An improved dialogue between marketing and other disciplines will enhance the efficiency and effectiveness with which the body of knowledge on business strategy grows.

Note

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