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{ New Theories }

Getting marketing back into the boardroom: THE INFLUENCE OF THE MARKETING DEPARTMENT IN COMPANIES TODAY

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What influence do marketing departments have in companies today? Which factors determine this influence? These are the issues discussed in the present article. Empirical evidence based on data from companies in the Netherlands demonstrates that accountability, innovativeness and customer connections are the three major drivers of influence. The need for a strong marketing department within companies is also discussed, supported by empirical data.

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The Status of Marketing

In the past three decades, marketing academics and practitioners have raised concerns over the declining influence of marketing in corporate life.

An anthology of the status of marketing in today's organizations reveals that marketing is in deep trouble. On the basis of existing discussions and publications, we might conclude that "marketing died, was declared impotent or most likely just became irrelevant to many senior managers." It is even maintained that "misguided marketing strategies have destroyed more shareholder value, and probably more careers, than shoddy accounting or shady fiscal practices have." This assertion is confirmed by ex-chief of LEGO, Christian Majgaard, who believes that marketing has lost its strategic role and that few marketers remain involved in rolling out strategies. Instead, most are engaged in more tactical decisions, particularly advertising, sales support, and public relations. These developments have important consequences:

> The marketing function drops down in the corporate hierarchy.
> Marketing and management issues receive less attention in the boardroom.
> Marketing is perceived as a cost, not as an investment.
> Marketers are being marginalized, in the sense that many strategically important aspects of marketing move to other functions in the organization.
> The synergies that result from mixing marketing decisions disappear.
> The roles of general managers, CFOs, and "other penny pinchers and number crunchers" become more important than the role of CMOs.
> Most CMOs are in the hot seat, with tenures averaging 22.9 months.

Many statements on the role of marketing in modern companies, however, remain anecdotal or journalistic and lack an empirical basis. In this article we offer empirically based statements about this topic, supported by empirical data from the Netherlands (see Box 1 on page 38). Based on this study, we determine (1) the influence of marketing in companies today, (2) the determinants of the marketing department's influence, and (3) the impact of weakened marketing departments on business performance.

Framework for Marketing's Influence within the Company

Marketing departments should have a strong role within the company, as it will improve business performance. Figure 1 shows how companies can improve MD influence through the improvement of capabilities of the marketing department and how this subsequently affects business performance. There are two ways in which MDs can influence performance. Either directly, where the benefits of a strong marketing function flow immediately into improved business performance, or indirectly, where a strong marketing function increases marketing orientation. In the latter case, it is market orientation, not just the power of the marketing function, which increases performance.

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Declining Influence of Marketing Departments

Marketing departments should have a strong influence within companies. However, this is not reflected in the empirical data collected in the Netherlands. The average scores for each of our measures in the total sample and per function are reported in Table 1. The average perceived influence is 3.69, and there is no significant difference between respondents from a marketing function and respondents from other functions (i.e., finance and general management). This average score suggests a moderate influence. Top management respect is significantly higher, with an average score of 5.12. Remarkably, finance executives believe the marketing function receives significantly more respect from the board than is the case with marketing executives (not shown in Table 1). The average importance of marketing across different decisions is 36.81. For marketing decisions, this score is significantly higher, with a value of 43.00, whereas for other decisions, it is significantly lower at 27.24. Marketing executives tend to score the decision influence higher than other executives. The average influence per decision per department is shown in Table 2. The marketing department is most influential in marketing decisions pertaining to advertising, customer satisfaction measurement and management, segmentation, targeting, positioning and relationship/loyalty programs. The sales department is far more influential in customer service, pricing, and distribution decisions. The influential scores for these decisions are markedly lower than those reported in a study in 1999 on the influence of marketing in German and US companies. Marketing has a relatively strong influence in the formulation of the business strategy, though for the other decisions, marketing seems to have only a moderate influence, with scores of 30 and 26 and usually ranking second. The marketing scores are again lower than those reported in the 1999 study.

The Importance of Marketing Department Capabilities

Marketing department capabilities are essential for improving the influence of the marketing department. There are three key capabilities:

> accountability
> innovativeness
> customer connection

Beyond these three key capabilities, integration, in particular with the finance department, also plays a role.

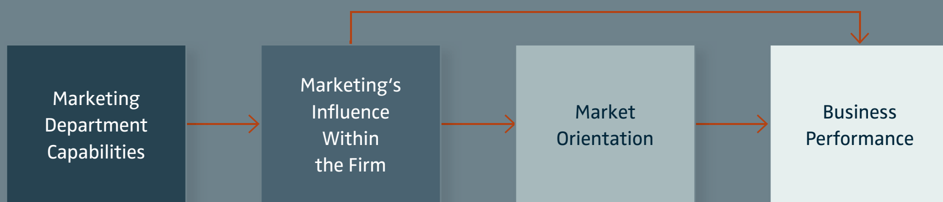


FIGURE 1:
From Marketing Capabilities to Business Performance

TABLE 1:
Averages of marketing department's influence measures

Influence Measure	Average Score
Influence perception (1 = low, 7 = high)	3.7
Top management respect (1 = low, 7 = high)	5.1
Decision influence total (0 = low, 100 = high)	36.8
Decision influence: marketing decisions (0 = low, 100 = high)	43.0
Decision influence: other decisions (0 = low, 100 = high)	27.2

TABLE 2:
Decision influence across departments and functions

	Marketing	Sales	R&D	Finance	Marketing Score 1999 (Study executed by Homburg and colleagues)
MARKETING DECISIONS					
Advertising	69	23	4	3	65
Customer satisfaction measurement and improvement	57	30	12	2	44
Segmentation, targeting, and positioning	55	33	8	5	N/A*
Relationship- and loyalty programs	51	35	6	8	N/A
Customer service	28	51	18	3	31
Pricing	20	48	13	18	30
Distribution	18	45	24	13	34
OTHER DECISIONS					
Strategy	34	32	16	18	38
Product development	30	25	39	7	32
Expansion to foreign markets	26	33	4	28	39
Choice of a business partner	26	33	13	23	33
Investments in IT (e.g., ERP, CRM, Internet)	26	16	15	42	N/A

(n = 213) (Allocation of 100 points over 4 departments)
* Not available in 1999 study.

{*Box 1*}

DESCRIPTION OF STUDY ON MD INFLUENCE

Marketing department's (MD) influence within the company is measured using three variables:

> the perceived importance of the MD
> top management respect of the MD
> decision influence of the MD on marketing and other decisions

Perceived marketing influence is measured with an attitude-based scale. One example indicates "The activities of the marketing department are considered as more important than other activities." Top management respect focuses on the perceived respect for the marketing department among the top management and board of the company. Top management respect is measured using different scales such as: "Top management acknowledges the strategic importance of the marketing department." The variable decision influence is measured by asking each respondent to divide 100 points among four departments (marketing, sales, finance, R&D/production) for seven marketing decisions (i.e., pricing, advertising, segmentation, targeting, and positioning, customer satisfaction measurement and management, customer service, relationship and loyalty programs, distribution) and five non-marketing decisions (i.e. general business strategy, IT-investments, partner choice, new product development, expansion to foreign markets). Influential departments should gain more points.

Data are obtained from a written survey of 2,500 companies in the Netherlands with a minimum of 250 employees and at least one subsidiary. In total, 296 respondents participated in the survey. The companies in our sample mainly operate in B2B markets, with a 3.07 average score on a 10-point scale (1 = sales generated exclusively from B2B, 10 = sales generated exclusively from B2C). In line with recent trends in Western economies, the companies primary focus is on services, with an average score of 5.85 on a 10-point scale (1 = sales generated exclusively from goods, 10 = sales generated exclusively from services). The sample companies are active in a variety of industries (e.g., retail, tourism, business services and construction). Approximately 20% employ more than 1,000 full-time members of staff. For only 8% of the included companies, the primary background of the CEO is marketing and for 36.8%, marketing is represented in the board. Finally, for 19% of the companies surveyed, marketing is a line function, whereas for 51%, it is a staff function.

Similar studies have been carried out using data from the USA, Germany, United Kingdom, Australia, Israel and Sweden.

Accountability

In many companies, marketers have a difficult time justifying their expenditures in terms of direct return on investment. In other words, the inability to account for marketing's contribution has undermined its standing within the company. McGovern and colleagues state that "the [marketing] field is chock-a-block with creative thinkers, yet it's short on people who lean toward an analytic, left-brain approach to the discipline." Two aspects are relevant in this respect. First, many marketers do not measure the effect of their actions, because they are unable or unwilling to do so, or because they do not use the appropriate metrics and/or methods. As a consequence, many advertisements have no effect on sales, sales promotions have no persistent influence on sales at either the brand or the category sales level, and new products suffer low success rates. Not surprisingly, CEOs cannot obtain clear, compelling answers about the impact of marketing. Marketing productivity could increase if managers were able to measure it. Recent calls for more attention to be focused on accountability, marketing metrics, and dashboard marketing may be helpful. In this respect, Farris and colleagues have written an excellent monograph in which they discuss the 50+ metrics that every executive should master. Second, there is still a lack of appropriate specifications of metrics, especially metrics that measure long-term or persistent effects. Many managers do not know what to measure and how to interpret the results. So, for example, a manager might collect customer satisfaction scores and customer retention rates, but if he or she cannot explain these scores (in relation to marketing activities), the data are not very useful. Accountability also involves the determination of the effects of marketing activities on the value of the company.

Innovativeness

Innovativeness is one of the most important business drivers. Marketing might play an essential role in the innovativeness of firms, in that it could initiate new innovations or translate customer needs into the pipeline of innovations. The innovative nature of the marketing department can be regarded as the degree to which marketing contributes to the development of new products within the company. We know, however, that CEO's are often disappointed by the level of innovation in their business, for which they hold marketers at least partially accountable.

Customer Connection

The customer connecting role of the marketing department concerns the extent to which the marketing department is able to translate customer needs into customer solutions that fit customer needs, and the extent to which it demonstrates the criticality of external customers and their needs to other organizational functions. In practicing this connecting role, the marketing function should emphasize the customer vantage point. The marketing department's ability to connect with the customer increases its influence within the company. The relationship between customer-connecting capabilities and the marketing department's influence is not without controversy. Primarily, it is not clear who is responsible for the company's relationships with its customers. Many executives mention that the customer must be a shared responsibility throughout the organization, but none mention the marketing department as solely responsible. However, paradoxically, the deeper the marketing concept is embedded within an organization and becomes the declining theme for shaping competitive strategies, the more likely the role of marketing is diminished. Consequently, as more functions connect to the customer, marketing becomes less relevant.

Integration / Cooperation

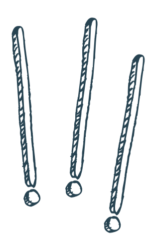
Clashes between marketing and other departments are relatively common and are considered one of the causes of the decline of marketing within the company. One solution is to create cross-functional cooperation in teams, which is generally considered beneficial to the company, a fact acknowledged by multiple organizations (i.e. Unilever, Procter & Gamble). The effect of cooperations with other departments on marketing influence is less clear. On the one hand, more cooperation could increase influence, because it prevents marketing from becoming a separate entity (or silo) without influence within the organization and prompts it to promote its plans within the company. On the other hand, more cooperation may cause the loss of sovereignty in marketing decisions and create further dispersion of the marketing department's responsibilities, with a concomitant loss of influence. Empirical evidence reveals that integration with other departments weakens the marketing department. This especially holds true for strong cooperation with finance.

Average Performance on Capabilities

Marketing departments score particularly poorly on innovativeness, and also do not excel in accountability (see Figure 2). However, they seem to be well connected to customers. Therefore, in the main, marketing departments should improve their innovativeness and accountability.

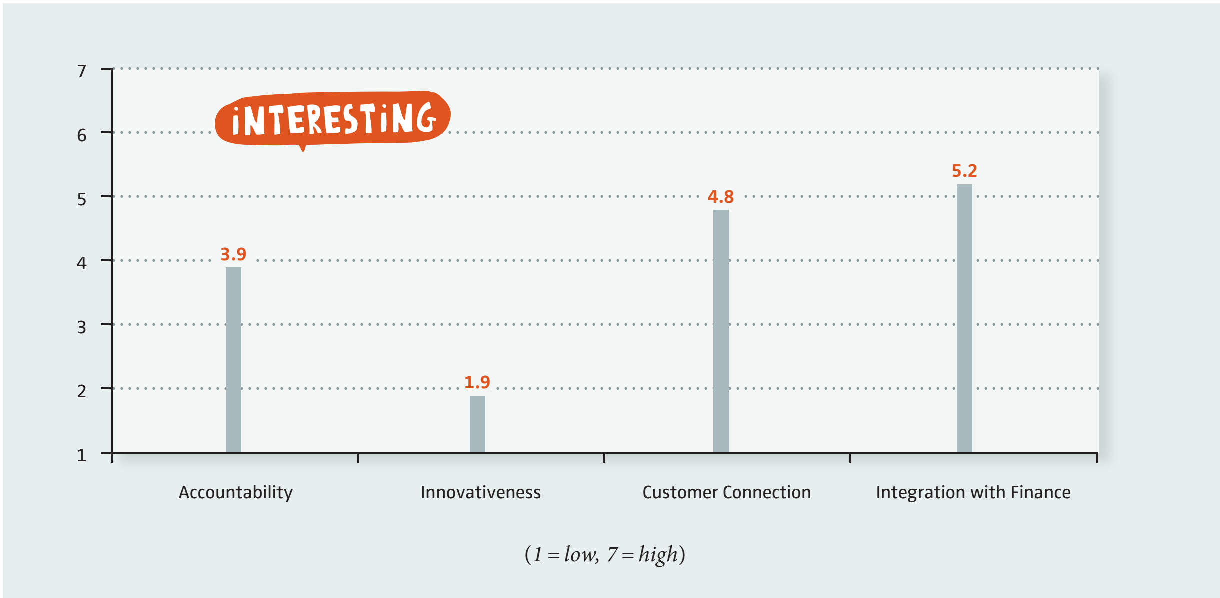
The Need for a Strong Marketing Department

One important question is whether companies actually require strong marketing departments. Both in practice and in the literature, pledges have been made that a strong marketing department is not necessary, as long as the company as a whole has a strong market oriented culture: ***marketing is everywhere!*** This would imply the absence of a direct link between marketing department influence and business performance.



» Empirical evidence shows that companies with strong marketing departments record a higher performance. It follows that these results confirm the need for strong marketing departments within companies! «

FIGURE 2:
Average Scores for Important Marketing Department Capabilities



Empirical evidence shows that companies with strong marketing departments record a higher performance. In five (Germany, UK, USA, Australia and Israel) of the seven countries studied, a positive relationship between the influence of the marketing department and both market orientation and business performance is evident. It follows that these results confirm the need for strong marketing departments within companies! It is, however, possible that there is no direct link between the influence of the marketing department and business performance. This is particularly true for companies in the Netherlands and Sweden. Therefore, in these companies, a strong marketing department only increases business performance by its impact on market orientation!

The Status of Marketing

What is the influence of the marketing department in companies today? Empirical results indicate that the actual decision influence of marketing departments is limited to advertising, relationship management (including satisfaction measurement and improvement) as well as segmentation, targeting, and positioning. Decision areas such as pricing and distribution that were originally dominated by marketing, at least according to most marketing textbooks, are now covered by other departments, in particular, sales and finance. Overall, empirical findings support claims in the popular and scientific press that marketing is losing ground within corporate life.

These negative findings are disturbing, since companies with strong marketing departments tend to perform better, due to a stronger market orientation and the direct effect of the influence of the marketing department on performance. Consequently, we believe that companies should give the marketing department more power. This is actually confirmed by experiences at General Electric, where the marketing function is currently being paid more attention in the wake of deteriorating market performance in a period without a strong marketing focus.

Regaining Influence

How can marketing regain its strategic role in companies? Based on empirical outcomes, the following general solutions are suggested:

> ***Marketing departments should become more accountable for the link between marketing actions and policies and financial results.***
> ***Marketing departments should become more innovative by increasing their share in new product/service concepts, which implies a greater contribution of marketing to organic growth.***
> ***Marketing departments should improve their connection with the customer.***

To achieve greater accountability, marketers should develop capabilities in analytics, finance and cost accounting.

Marketing departments require a financial behavioral change, with marketing plans including a financial section that features the planned financial consequences (i.e. pre-ROI) of their marketing actions. Marketing departments should also embrace more testing. In evaluation reports, they should report ROI along with other performance metrics of marketing plans and marketing campaigns carried out.

To increase the innovativeness of the marketing department, marketing people might capitalize on their market and customer knowledge to develop successful new product and service concepts. They could build on new trends, such as customer co-development and customer solutions. At the same time, marketers should be trained in techniques such as lateral thinking, to transform customers' desires and needs into explicit product ideas. To improve customer connections a deeper knowledge of customer needs is required. This may arise from good marketing research. It may, however, also be increased by closer connections with customers and through customer engagement. Also, quantitative knowledge could be enriched with qualitative insights.

To summarize, marketers should deserve more influence within companies. At the same time, they should improve their capabilities and generate more respect within the company. This will be an important challenge for today's marketing function. •

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Marketing Function, Cooperation, Market Orientation, Marketing Capabilities, Business Performance