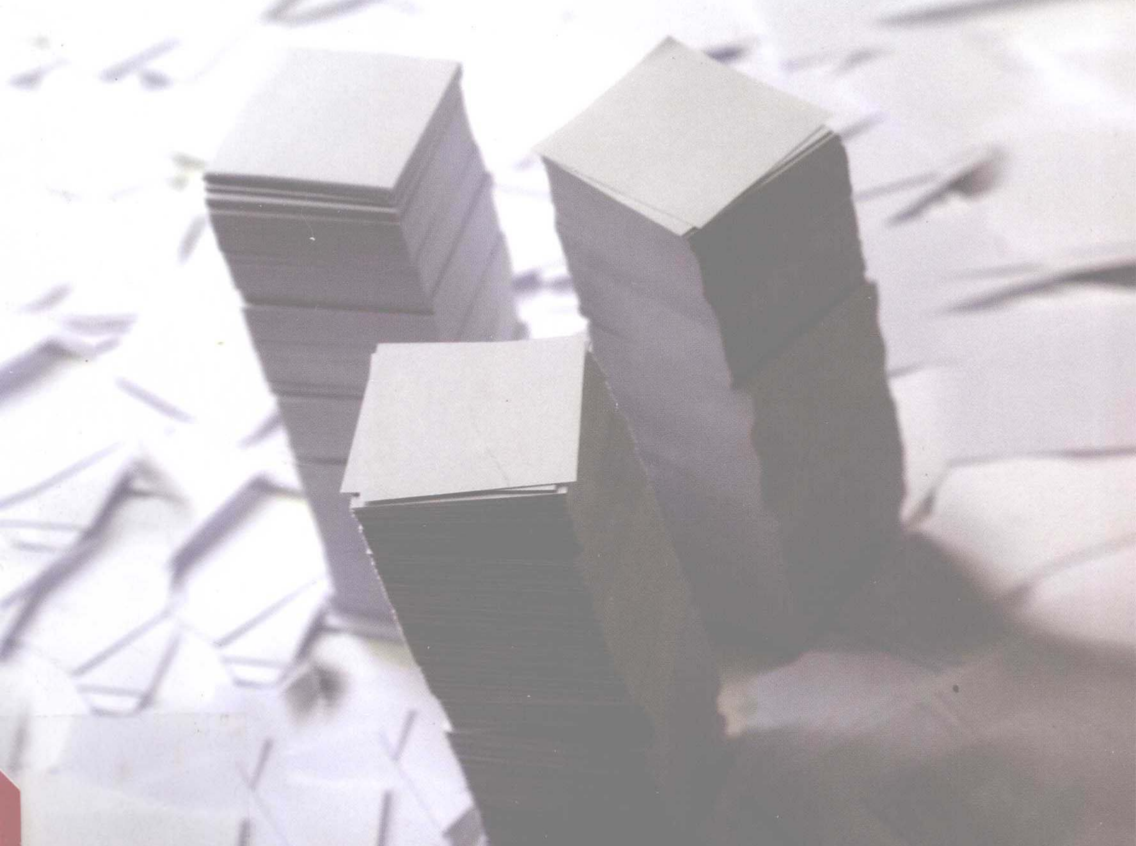
Marketing Knowledge Management

Managing Knowledge in Market Oriented Companies



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Introduction

THIS IS A BOOK ON MARKETING

From glancing at the table of contents, or randomly thumbing through a few pages, one may be surprised to find no mention of classic strategic marketing decisions, nor marketing mix tools, nor other decision-making domains typical of this area of management. In fact, the basic premise of this book is that marketing, as a specific realm of management, is called to take on a new role: that of actively managing a part of organizational knowledge.

The importance of this role stems from the recognition that companies which successfully attain sustainable competitive advantage are those that effectively manage their knowledge repository, and consider satisfying the needs of their customers in the long term as their primary goal. In other words, these companies are *knowledge based* and *market oriented.* Till now, both marketing scholars and practitioners have shared the assumption that taking marketing decisions in a proper way will ensure customer satisfaction and competitive advantage. The basic assumption of this book, instead, is that all this is not enough. On the contrary, it is the effective management of marketing knowledge that allows companies to achieve these objectives.

THIS IS ALSO A BOOK ON MANAGEMENT

The managerial tools described in various chapters, in fact, refer to the broadest area of management, that is, the different ways managerial knowledge and competences can be used to reach company goals. Often, both in the specialized literature and in business practice, marketing managers are reproached for being too sensitive to the wide variety of customer needs, and not attentive enough to the company's requirements of efficiency, profitability and competitiveness. The purpose of this book is to contribute to making marketing more closely connected to management, while preserving the specific decision-making domain and specialization of the former. The foundation on which this dialogue has been constructed is knowledge management. To attain this objective, the book attempts to provide answers to the following questions:

WHY SHOULD A COMPANY BE MARKET ORIENTED AND WHAT EXACTLY DOES THIS MEAN?

In the first chapter, ample space is dedicated to the debate which has most markedly characterized the last 15 years of marketing studies: the meaning of market orientation. Though there has been a multitude of opinions on this question, recently a certain consensus has been reached on the statement that what distinguishes a market oriented company is the ability to efficiently and effectively manage specific managerial processes, in particular those pertaining to the management of marketing information.

However, the theory put forth in Chapter 1 is that market orientation does not always, nor does it necessarily, contribute to achieving superior organizational performance. To guarantee the attainment of this goal, the company must correctly manage the organizational antecedents that favour the effective adoption of this orientation. Moreover, managers must be aware of the fact that market orientation does not directly influence organizational performance; rather it enhances organizational innovativeness and learning capacity, outcomes which contribute to improving financial and competitive performance.

WHAT IS MARKETING KNOWLEDGE?

The concept of knowledge has long fascinated scholars in many disciplines. This has contributed to making the issue extremely complex. In fact, different perspectives have placed emphasis on specific aspects related to knowledge. These perspectives have given rise to the development of different methodologies by which knowledge can be studied, and have often lead researchers to recommend very different ways for analysing, interpreting and managing knowledge. Given this, a clarification of the basic epistemological assumptions behind a definition of knowledge is necessary, otherwise no argument will stand on solid ground. Also for those who are interested specifically in managerial knowledge, an exploration of fields which are apparently more abstract and less linked to the business practice proves to be fundamental in order to design appropriate managerial processes and mechanisms.

Chapter 2, then, provides a wide-angle view of various research streams on organizational knowledge, with quite a high theoretical flavour, but with an equally concrete goal: to arrive at the definition of a descriptive model of organizational marketing knowledge. These research streams are categorized on the basis of two different paradigms: cognitivist and constructionist. For each, the differences in basic assumptions, hypotheses and conclusions are highlighted, so as to unveil the ruggedness of the field of study, and the traps inherent to the process of managing marketing knowledge.

An analysis of these two major paradigms will clarify the perspective adopted in designing the descriptive model of marketing knowledge presented in Chapter 3. The purpose of the model is to shed light on the components of an organization's marketing knowledge, with the belief that an effective management process must necessarily start with the identification of these components. In fact, to design and implement marketing knowledge management processes without a clear definition of what knowledge should be managed sets up the conditions for wasting effort. The conclusion of the third chapter is dedicated to the presentation of a model for managing marketing knowledge, which is discussed in detail in successive chapters.

HOW DOES A COMPANY MANAGE MARKETING KNOWLEDGE?

Managing marketing knowledge requires designing and implementing an ad hoc process, which must take into account the specificities of this area of organizational knowledge. In order to plan and execute such a process effectively and efficiently, it should be broken down into a number of phases, and for each phase key problems should be identified, as well as managerial tools most suitable for solving them. Project leaders, and managers either from Marketing or other organizational departments, can make use of specific organizational and technological tools to reach their objective, which are described in Chapters 4, 5 and 6 of the book, each focusing on a phase of the management process.

HOW DOES THE COMPANY FIND OUT WHAT IT KNOWS ABOUT MARKETING?

This question would seem at best ambiguous, at worst, trite. There is an implicit belief in most research on the topic and in business practice: that organizational marketing knowledge is always available for use in making decisions and implementing marketing activities. But this belief is rooted in a three-fold assumption regarding marketing knowledge: that it can be communicated, that it can be de-contextualized, and that people are conscious of it.

In Chapter 4, attention is focused on the challenge that companies must overcome in order to make marketing knowledge available for decision-making and implementation of activities. The takeoff point for every process of managing marketing knowledge is the awareness of potentially available knowledge. This awareness can be achieved when the company is capable of using specific methodologies in order to let marketing knowledge emerge. In fact, there are various types of knowledge: some is readily expressed and communicated, some does not emerge easily because it is embedded in interactions between individuals, other knowledge is utilized unconsciously because it was acquired unconsciously, and yet other knowledge is simply forgotten by the company that possesses it. What seems to be generally apparent is that companies know more than they are able to communicate, and marketing knowledge is not unaffected by this problem. Most of Chapter 4, therefore, is dedicated to an analytical description of a number of methodologies which prove to be helpful in making the different components of marketing knowledge emerge.

HOW CAN A COMPANY GENERATE NEW MARKETING KNOWLEDGE?

A company that is willing to achieve sustainable competitive advantage in highly dynamic markets, must have a repository of marketing knowledge to be systematically replenished with new components. Knowledge is usually considered the outcome of mental activity, of an exclusively cognitive process. The choice of the epistemological field made in the second chapter brings me to argue, in Chapter 5, that action is central to generating new marketing knowledge. Companies, taken as socio-cognitive systems (that is, systems that produce knowledge in order to reach their objectives) naturally tend toward inertia – that is, they confirm knowledge that has worked up till that moment. The creation of new knowledge implicates effort, intent – that is, action – the final aim of which is to reach something that is different from pre-existing knowledge. Only this way will a company defeat inertia and integrate new elements in its marketing knowledge repository.

Chapter 5 provides an analytical examination of the generation of new marketing knowledge. The phases that make up this process and the relationships between them are detailed. Moreover, since marketing knowledge also concerns market actors, specific attention is given to the description of the contribution that customers make in enriching the marketing knowledge repository of a company. First, knowledge and competence of customers are outlined. Second, specific methodologies are highlighted which are suitable to this purpose, so as to emphasize once again that various types of knowledge require different methodologies in order to emerge.

HOW IS MARKETING KNOWLEDGE SHARED AND USED WITHIN A COMPANY?

Today quite a widespread belief is that sustainable competitive advantage does not depend as much on the availability of knowledge, but on its actual use in decision-making and behaviours. This conviction alone would justify sharing and utilizing marketing knowledge among the various organizational units of a market oriented company. Surprisingly enough, however, some companies with a rich, detailed repository of marketing knowledge do not make this knowledge available to the personnel who need it. Similarly, but in a certain sense conversely, these same people may have marketing knowledge, but do not consider it useful.

Chapter 6 centres on a discussion of typical barriers to sharing and utilizing organizational marketing knowledge. These are generally associated with particular organizational conditions or features of communication processes which do not favour sharing and use of knowledge. Once single barriers are identified, the most suitable management tools for overcoming these obstacles are presented. An analysis of such tools is provided in the second half of the chapter, with fitting emphasis on which are most appropriate with respect to every specific barrier.

Contents

1. Market Orientation and Organizational Knowledge

1.1 THE MARKETING CONCEPT: DEFINITION AND LIMITATIONS

In the 1950s and 1960s, when marketing was moving from the world of mere techniques to the broader field of management, many scholars called attention to the fact that companies had to adopt a management philosophy by which customer satisfaction was the ultimate aim of all organizational activities. This management philosophy has traditionally been associated with the term *marketing concept*.

Some memorable quotations illustrate this desire for a new way to do business. For example, Drucker (1954: 37) asserts: 'There is only one valid definition of business purpose: to create a satisfied customer.' Felton (1959: 55) instead defines the marketing concept as: 'a corporate state of mind that insists on the integration and coordination of all of the marketing functions which, in turn, are melded with other corporate functions, for the basic objective of producing maximum long-range corporate profits.'

The consensus generated around the new management philosophy (Keith, 1960; Levitt, 1960; Kotler, 1967; McNamara, 1972) has played an important role in the evolution of marketing thought. In fact, this broad acceptance served both to affirm the relevance of marketing as a scientific discipline and to enable scholars to identify and recommend a set of decisions and behaviours consistent with the new management philosophy. As a matter of fact, the assertion that companies must recognize that customer satisfaction is the primary generator of their profitability, in turn leads us to recognize the criticality of marketing as a discipline, as it involves analysing exchange relationships with customers, and theorizing on the most effective and efficient ways to manage them.

The original definition of the marketing concept was necessarily broad and generic, though it is precisely these characteristics which have given rise to ample *ambiguity*, both in theoretical and normative terms. This ambiguity has persisted over time, as the marketing concept has fossilized in a definition that has remained unchanged for nearly forty years. The theoretical consequences of this definition were derived in a very ideological way, one lacking in rigorous methodology. What this means specifically is that some propositions associated with the definition of the marketing concept, which should have undergone empirical testing and investigation, were raised to the status of *axioms* and taken together like a 'profession of faith' that formed the basis for successive elaboration up to very recent times.

The first of these axioms is that *adopting the marketing concept is necessary for the company's success.* Marketing scholars, in fact, maintained that adopting the marketing philosophy improved a company's market and financial performance. But, until the 1990s this alleged relationship had never been tested empirically. Indeed, market orientation (the operational translation of the marketing concept) was always presented in evolutionary terms, as the final destination in a journey of enrichment for the organization's managerial capabilities (Keith, 1960; Levitt, 1960); as such it was implicitly associated with positive connotations.

This axiom, in a sense, represents marketing's 'original sin'. Though it may have found justification at the inception of the discipline, with the evolution of studies and the dissemination of marketing in business practices, it has constituted an easy target for critics from related managerial fields. Moreover, certain *corollaries* deriving from the preceding axiom have provoked even more numerous critical comments.

The first corollary is that *adopting the marketing concept is valid for any external environment the company has to face*.

Marketing experts, in other words, agreed that the marketing concept was a useful, even necessary philosophy in whatever type of industry, regardless of its structure, the intensity of competition, and the type of competitors. The justification was built by linking the need of the marketing concept to the complexification of markets, due to increasing demand uncertainty, intensified competitive rivalry, growing power of intermediaries, and technological turbulence (Webster, 1988). If markets are becoming more complex, satisfying needs expressed by customers would guarantee the company a better chance of attaining increased sales and superior profitability.

Over the years, this mindset has led to an extension of the theoretical *corpus* of the discipline. Initially proposed for marketing of mass market consumer goods, it was later extended to industrial and services marketing, to businesses operating in non-market economies, and to non-profit organizations (for a review see Rodriguez Cano et al., 2004; Kirca et al., 2005).

Proceeding along this path, the marketing concept is necessarily a context-independent management philosophy. In prescriptive terms, on the contrary, it would be more useful to point out some specific criteria for determining to what extent the marketing concept is a profitable management philosophy.

The second corollary is that *adopting the marketing concept is valid for any organizational environment.*

Just as with the preceding corollary, here too scholars did not give enough consideration to the organizational factors involved in adopting the marketing concept, especially those that could facilitate or hinder this particularly complex process. The belief was that the company, once it had accepted this change of philosophies, was consequently aware of the need of modifying its behaviours. In other words, the relationship between recognizing the need to take customer satisfaction as a goal to direct company activities, and implementing consistent behaviours was not seen as problematic. Instead, more attention should have been dedicated to different organizational factors – like organizational design and managerial systems – that may influence the adoption of the marketing concept.[1] But in this case also experts suggested extending the theoretical and normative *corpus* which was valid for marketing departments in major US corporations, quite indiscriminately to smaller businesses, to companies operating in countries with different managerial cultures, and to companies with fuzzy organizational structures and processes.

Hence, for the second corollary too this theoretical approach confirmed that the marketing concept was independent from context, and made the endorsement of this philosophy the incontestable vehicle for company profitability and success.

Figure 1.1 The marketing concept theory as a system of self-reinforcing axioms

In conclusion, the above description highlights how one of the cornerstones of modern marketing thought – the marketing concept – is theorized as a system of self-reinforcing axioms (Figure 1.1). The need to adopt this management philosophy is reinforced by the characteristics of modern economic and market environments and is not hindered by possible organizational barriers.

The core concept of the entire discipline, having been proposed in such broad, generic terms, and founded on an axiomatic system which had not been subject to testing, provoked a series of criticisms by scholars from marketing-related fields. This censure resurfaced regularly over the years, but noticeably fostered the evolution of the discipline, and of the marketing concept theory in particular.

Criticism has been voiced most strongly when the economy in industrialized countries, especially in the US, showed signs of crisis and recession. This coincidence is proof of two main original features of marketing. The first is that it is a discipline (and consequently a system of practices) which deals with development and growth strategies of companies. Hence, the absence of development can in some way be attributed to it. Secondly, it originated in the US, and so the more intense stimuli in the academic debate come from the same geographic/cultural area. Consequently, most of the contributions offered in response to the critics come from observation, analysis and interpretation of phenomena which characterize the same geographical/cultural sphere. This amplifies the difficulties in extending the proposals that arise to areas with different economic and cultural contexts.

A further confirmation of the theoretical shortcomings of the axiomatic system on which the marketing concept stands is that the crux of the major controversies always remains the same: the lack of empirical testing of the proposition that adopting the marketing concept guarantees the company's financial and market success. Indeed, critics of the concept found support in studies which demonstrated, over and over again, that the opposite is true.

From the 1970s to the 1980s, Bennet and Cooper (1979, 1981) and Hayes and Abernathy (1980) claimed that excessive focus on consumers' needs reduced the capacity of US companies to generate radical innovations leading to sustainable competitive advantage. Hence, these companies were less able to build solid barriers to defend against the toughest competitors of their day: the Japanese. The marketing concept, in fact, excessively deviates effort toward incremental innovations which are easily imitated, based on readily available indications provided by market research. This philosophy also encourages companies to focus on competitive tools such as advertising and promotions which are more easily countered by the competition as compared to product strategies that provide superior value to the customer. Here are some comments that clearly exemplify the harsh tone of the critics: 'The marketing concept has helped contribute to the death of true product innovation in North America' (Bennett and Cooper, 1979: 77). 'We have decided that it is easier to *talk about* our new products than actually to develop them' (Bennett and Cooper, 1981: 54).

Other authors (Wind and Robertson, 1983; Day and Wensley, 1983), instead, objected to the excessive focus on the short term encouraged by the marketing concept. This contributed to shifting attention away from competitors, who became more and more aggressive and sophisticated, toward customers, who do not necessarily provide stimuli useful for designing development and growth strategies.

Following the same line of reasoning a decade later, Christensen and Bower (1996) opened the debate once again[2] with a longitudinal study on the disk drive industry, in which they showed how leading companies in the technology that dominated the industry at a certain point in time systematically lost their leadership when new technology substituted their own. This happened, as the authors demonstrated, because too much emphasis was placed on customers' expressed needs in allocating investments in new product development processes. On the contrary, winning companies took risks, investing resources and energy in innovative projects that did not seem to have great market potential (according to insights gained from the biggest clients at the time); those proved to be products that later dominated the market.

Summing up, then, critics of the marketing concept, even from very different periods of time, all share the same view: it is not true that putting customers at the centre (that is, utilizing information on their motivations, preferences, behavioural intentions) is always rewarded. Therefore, more generally speaking, it is not true that adopting the marketing concept guarantees superior financial and competitive performance. Instead, when a company's external and internal environments have certain characteristics, adopting the marketing concept can bring about negative results. So once again, it is the axiomatic system on which the marketing concept stands which is subject to censure.

Through the years, the responses of marketing researchers have varied both in nature and effectiveness. In the 1960s, 1970s and 1980s their answers were formulated for the most part in order to cope with every single criticism raised. Therefore, they were not successful in building a theory able to provide the discipline with a solid and unifying foundation. This occurred only in the 1990s with the proposal of the market orientation construct. The debate that marked that decade is discussed in the following section.

1.2 FROM THE MARKETING CONCEPT TO MARKET ORIENTATION

The 1990s[3] was a decade characterized by a lively debate on the marketing concept which resulted in a transformation of the axiomatic system at its base into a set of propositions to be tested empirically. This transformation took the form of a two-step sequence. First the marketing concept was more clearly specified and the market orientation construct was defined; second, a theoretical framework of the antecedents and consequences of market orientation was built and their relationships empirically tested.

1.2.1 The Specification of the Marketing Concept and the Definition of Market Orientation

The first key step in renewing the marketing concept theory was to anchor it to the core of the research domain of the discipline: exchange processes.

Vital work in this regard is Houston's (1986), who proposes a reinterpretation of the marketing concept which laid the groundwork for the studies of later authors. He begins with three fundamental assumptions. First, in order to reach its objectives (whatever they may be) the company performs market exchanges. Second, it pursues specific goals other than customer satisfaction (for example, profit, market share). Lastly, a set of managerial approaches is available to the company beyond the marketing concept (for example, production or sales orientation).

Given these assumptions, the author claims that the marketing concept is a management philosophy that allows the company to reach its goals more efficiently than others *through an understanding of the motivations that lead potential partners to participate in an exchange.* The marketing concept should be adopted only if it proves more profitable than other alternative philosophies, on the basis of an analysis of the value of additional information on potential partners. Houston hypothesizes four environmental conditions, both internal and external, which make this additional information valuable:

- the presence of potential partners whose needs are not satisfied;
- the possibility/freedom to generate an adequate set of products/services;
- value of additional information on potential partners that is higher than the cost of acquiring it;
- the absence of limitations to modify products/services offered – should the need arise.

In other words, the author's hypothesis is that adopting the marketing concept is more profitable than other philosophies *if the company is able to acquire data on potential exchange partners in an efficient way, and to make products consistent with these data.* Houston, therefore, places key emphasis on what distinguishes the marketing concept from other management philosophies: the high information content. A major step is taken through Houston's proposition: the marketing concept becomes a refutable hypothesis. Moreover, Houston highlights the need to take one step further in order to test his hypothesis, that is, the articulation of the 'marketing concept' construct.

In the years that followed, this is done by breaking the marketing concept down into the set of processes a company needs to implement in order to ensure customer satisfaction. This is given the name *market orientation*.

The definition of the market orientation construct, therefore, plays two important roles: a heuristic one, as it becomes the core construct for testing propositions regarding the marketing concept; and a prescriptive one, highlighting the fact that adopting the marketing concept means implementing consistent behaviours. The relevance of market orientation is clearly demonstrated by the fact that this construct totally supersedes that of the marketing concept in the academic debate of the 1990s, and provides a means of escape from the 'axiomatic trap' of previous years.

Various definitions of market orientation have been suggested. Shapiro (1989) concentrates on certain characteristics of *organizational processes*. First of all, market information (regarding all variables that influence customer buying behaviours) has to permeate the entire organization. This means that the Marketing Department can not be the sole depository of market information, but that every department (Research & Development, Manufacturing, and so on) must have access to it so that these data make product development and product management processes more effective. Secondly, both strategic and tactical decisions have to be made through inter-departmental and inter-divisional coordination. In other words, it is not enough for information to be transmitted and disseminated; it is essential that information is also utilized by all organizational departments in decision-making processes. Lastly, there must be a broad-based commitment to market orientation. Everyone in the company must be motivated by the fact that his or her actions are determinant in satisfying customers, and that these actions must be oriented toward this common goal. However, Shapiro does not delve into his proposition to the point of coming up with a measure of market orientation.

Kohli and Jaworski (1990), instead, move in this direction. These authors, perhaps more than any others, influenced the academic debate of the time. Through an analysis of previous literature and a series of interviews with