A FRAMEWORK FOR THE STRUCTURAL DESIGN OF THE MARKETING UNIT: A CONTINGENCY THEORY APPROACH

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The implementation of marketing strategies in industrial organizations is influenced by the extent to which their administrative structures are appropriately designed to deal with the environments in which they are operating. Although some key aspects of the marketing function important to successful performance have been identified in previous research and some partial models proposed, there is a need to integrate such findings from a comprehensive organizational perspective. The authors present an integrative conceptual model which elaborates upon hypothesized relationships between the structure of an organization's marketing unit, the conditions of its external markets and environments, and the performance of the marketing unit.

Introduction

In recent years there has been a considerable increase in research designed to understand the factors affecting the structure and administrative arrangements of organizations. The research has also tried to determine how these factors affect organizational performance. Generally the results suggest that performance depends on the fit between the structure adopted and a number of other factors such as size of the organization, the technology employed and the external environmental conditions in which the company operates (Lawrence and Lorsch 1967; Child 1977).

In terms of the influence of the environment-structure match on organizational performance, the research evidence is less than conclusive (Pennings 1975). More recent research has provided some potential avenues for further investigation of this area (Mansfield et al. 1980; Grinyer and Yasai-Ardekani 1980). Among these are suggestions that the influences of the organization's external environments may vary in different parts of the organization and that they are likely to have the greatest effects on those parts of the organization which relate most directly to them. Since marketing is that function which most direcly links the organization with parts of its external environments (e.g. customers, competitors, suppliers, etc.), investigations of the relationship between the organization of the marketing/sales unit and the external environment may be especially relevant.

A closer and more detailed examination of these relationships may shed light on the usefulness of the contingency model of organizations in explaining the performance of organization's marketing/sales unit. More specifically, such an investigation may uncover relationships between structures and marketing environments which in addition to providing a test of the conceptual framework, would lead to a clearer understanding of environment-structure-performance relationships in specific situations. The strategic benefit of such an approach is to re-emphasize that there is no universal principle of marketing organization design. A design that is the best solution for one organization may be only one of a number of equally poor alternatives for another. A consequence of this re-emphasis may be to further sensitize management to the fact that marketing structures and control mechanisms provide a framework through which an organization pursues its strategic purpose and that there is a need to continually evaluate this structure in light of changes in the organization's marketing environments. The challenge in designing marketing organizations therefore, is to interpret the unique factors in a given situation in such a manner as to lead to a particular design which will best facilitate the attainment of a specific strategic option.

There does appear then, to be a need for research which concentrates on the characteristics of an organization's markets environments, the administrative structure of its marketing unit and its performance. The specific issue as the authors now see it is, 'what are the basic variables to which the constructs of marketing organization structure, external environments and performance pertain?'. The purpose of this paper is to clarify the theoritical base relating characteristics of an organization's market conditions and the organizational structure and performance of its marketing unit so that replicable investigations of environment-structure-performance can proceed forthwith.

Literature Review

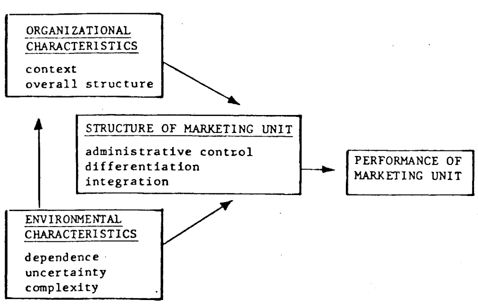
Within the organization theory literature, the so-called "structural-contingency" models have tended to move from a global organization-environment relationship to a more disaggregated research design. Theorizing about the role of the appropriate characteristics of the environments for the functioning of the "relevant" organizational units, as distinct from the overall organization has provided some noteworthy empirical evidence. For example, Wheeler et al. (1980) in their study of 78 commercial companies found that conditions of the organization's markets had significant effects only on the specialization and the extent of formulation of marketing activities. Dastmalchian (1984), using data from 29 manufacturing firms, reported that the extent to which organizations deal exclusively with one or a few customers related significantly to decentralization within the marketing/sales departments. These, and other studies concentrating on various functions within organizations (e.g. Hitt et al. 1982), indicate the importance of relying on characteristics of specific units (in our case, marketing) and the environmental conditions directly facing them in order to gain a better understanding of the ways they operate. These investigations, however, have an organizational analysis perspective which has reduced the applicability of their findings to the development of marketing thought. Empirical research in marketing pertaining to the organization of the marketing function is embryonic. An exploratory study by Corey and Star (1971) which sought to explain variations in structure primarily in terms of the history of organizations, their traditions, and their strategies, appears to have had little impact on the field. Other marketing investigations, their scope being limited to the roles of product managers (see Bart 1984 for a comprehensive review of this research), have made small contribution to the area. There have also been a number of conceptual articles relating to marketing organization (Weitz and Anderson 1981; Sadler 1976) but they have tended to focus on descriptive models not readily amenable to data collection or hypothesis testing. More recently, emerging literature on marketing implementation (Bonoma 1984; Spekman and Gronhaug 1983) holds early promise of stimulating a more thorough study of marketing organization structure.

A Contingency Model of the Marketing Organization

Figure 1 illustrates the main variables that the authors have included in their proposed model. The model is based on Chandler's (1962) notion that structure follows strategy. It also indicates that there will remain important differences in marketing organization between firms which can only be explained by reference to differences in their environments. The potential influence of general organizational characterisitcs on the design of the unit is also acknowledged. Taken as a whole, the chosen design is suggested to lead to a certain level of performance for the unit. The major advantage of the proposed model is its potential to lead to a more integrated theory of marketing organization. In particular, its provision for the specifications of particular variables within a global construct (e.g. separate definitions and operationalizations of complexity, uncertainty and dependence within the marketing environment) makes it possible to examine combinations and interactions.

FIGURE 1

A CONTINGENCY MODEL OF THE MARKETING UNIT



The remainder of the paper is devoted to reviewing the evidence and conjecture pertaining to general and specific linkages within each of the constructs identified in Figure 1.

Organization of the Marketing Unit

An important goal in designing a marketing unit is to divide and coordinate the activities in such a way that the unit can accomplish its strategic purpose. Following upon the work of Lawrence and Lorsch (1967), organization theorists have paid increasing attention to the concepts of integration and differentiation as the building blocks of organizational structure. Integration refers to the coordination both within the marketing unit and between functions, whereas differentiation refers to the need to divide decision making authority into units with different goals, time horizons and task specializations. A sales department with unit, district and regional managers would be highly differentiated on a vertical dimension, whereas the existence of program managers in a marketing organization would be indicative of a high level of horizontal differentiation. Program managers would also function as integrators and could be employed on a full or part-time basis.

Another aspect of design is the extent to which attempts are made to exert closer administrative control over the actions and behavior of personnel. In this connection control can be maintained by achieving a balance between the centralization of decision-making and formalization (Child 1972). For example, when marketing managers are empowered to make contracts with customers there is little need for imposing contract administration rules and procedures on the sales force. Alternatively, if authority to make such decisions is moved down to the sales force, then there will be more need for bounding the scope of their discretion by imposing more bureaucratization. Given this rather simplified explanation of adminstrative control, the model proposed here includes the following organization elements: formalization, standardization, specialization and centralization.

Complexity of the Marketing Environment

The concept of the external environments in its simplest interpretation refers to elements outside the boundaries of a particular organization. The marketing literature has generally viewed its complexity in terms of characteristics of the organization's products or markets. This focus, although by no means narrow is at least "bounded" and possibly more amenable to research than other broader interpretations. Pessemier (1982) has described the complexity of the marketing environment in terms of: (i) horizontal diversification, that is the addition of products or services suitable for several different markets and applications and (ii) vertical integration, which refers to the manufacture and sale of component outputs to other organizations. In addition, Levitt (1980) has noted that the complexity of the marketing environment can be increased by the degree to which firms differentiate their marketing programs among customer groups. Other research (Shapiro 1974), albeit not directed at the issues addressed in this paper, does suggest a possible relationship between some aspects of structure and product or market characteristics (eg. unit value, rate of technological change; technical complexity; consumer need for service; frequency of purchase; rapidity of consumption; and number and variety of consumers).

A common managerial response to environmental complexity has been to decentralize and specialize the marketing function. For instance, in a complex market environment (characterized by some or all of product, market, and supplier diversity), decentralization, specialization and close administrative control are likely to be the norm. In a less complex market environment, there is a greater likelihood that marketing structure will be "flatter", less specialized and evidence fewer formal controls since many marketing activities may be subsumed by production or other functional areas. The theoretical argument regarding the effects of environmental complexity on organization stems from the belief that expansion and diversity in the external scope of an organization's domain would result in the increased complexity and diversity of both internal operations of the organization and its requirement for administrative control (Dess and Beard 1984). Rumelt's (1974) study of strategy and structure, although not directed specifically at the marketing function, supports this view. Therefore, in terms of the structural features under study, increased complexity in the marketing environment is likely to relate to the marketing unit's design based on comparatively more integration, more differentiation, and administrative control mechanisms.

Marketing Environment Uncertainty

Uncertainty is a measure of instability. Uncertainty may be present in any of the technological, political, economic or social, as well as within the marketing environment in which the marketing unit operates. Elements of uncertainty which have been widely researched within the marketing literature include the lack of routinization of relationships, rate of change within the task environment, and directness of contact with the marketing environment (e.g. Anderson and Zeitnaml 1984; Aaker 1984).

An organization's typical response to coping with uncertainty has been to employ adaptive marketing structures. This is mainly due to the fact that uncertainty increases the requirement for more information to flow across the organizational units, which in turn increases the number of units in order to improve the organizational performance. Such a need is then reflected in the creation of a more adaptive and flexible structures to allow for more lateral information processing (Galbraith 1973). Thus, increased uncertainty in the marketing environment is expected to relate to more integration within the marketing unit and between marketing and other units, to comparatively less differentiation (to allow for more adaptability) and to control strategies based on more decentralization and formalization.

Dependence

Dependence refers to the extent to which an organization is vulnerable to its market environment in obtaining the required resources or in disposing of its products or services (Shortell 1977; Pfeffer and Salancik 1978). Recent developments in conceptualizing dependence (Jacobs 1974) and some empirical attempts to examine the relationships of market and customer dependencies with characteristics of the organization in general, and marketing units in particular (Mansfield et al. 1980; Dastmalchian 1984), suggests that dependence on markets and dependence on customers would seem to be of particular interest. The former refers to an organization's dependency on its product markets, and the latter is directed towards dependence on individual customers. The theoretical rationale for these is based on the sociological theory of power-dependence (see Stern and El Ansary 1982 for marketing's interpretation) which states that an organization's dependence on its markets, or on its customers, is directly related to the essentiality of the outcome of the exchange relationship (in our case, the revenue from sales) and is inversely related to the ease with which substitute markets or customers can be found. For example, an organization is considered to be highly dependent on its major customers when it has a single product line which is sold exclusively to one particular customer or when one or a few channel members control the distribution of its single product line. By the same token, an organization highly dependent on its market is one with a single product line for which it has a very limited share of market and for which it is relatively powerless to obtain substitute markets.

Recent research suggests that the more dependent organizations are on their environments, the more they will attempt to reduce the nature of this dependence by devoting more of their resources to dependent units and by attempting to maintain close administrative control (Dastmalchian, 1984). Market or customer dependent organizations are likely to have less differentiated and less integrated marketing units. As for the choice of control mechanisms, closer control is likely to be evident through either centralization or formalization.

Organizational Characteristics

In the absence of evidence identifying the nature of relationships of overall organizational characteristics, structure and functioning of sub-units, the authors suggest that organization size, age and status in relation to its parent company be included in the model. All of these variables have been shown to influence the functioning of organizations and have been hypothesized to have certain relationships with the conditions of an organization's environments (Pugh and Hickson 1976). The rationale for including this set of variables is to control the variations in the structural features of the marketing units that may be due to the overall organizational influence rather than the environmental conditions.

Performance

A typically researched indicator of organizational and sub-unit performance is return on investment (ROI). For instance, an early investigation by Vernon and Nourse (1972) regressed two measure of ROI (average net income/total assets and average net income/average shareholders' equity) against twelve measures of strategy and market structure. More recently the PIMS project (Hambrick et al. 1982) has employed a variety of measures of ROI (marketing revenues/marketing costs, cash flow, and so forth).

Financial performance may not be the only indicator of marketing performance (Anderson and Paine 1978). Moreover variables that significantly influence performance may vary by type and importance across organizations and within industries. In light of these limitations Weitz and Anderson (1981) have recommended that assessments of marketing performance also include measures of forecasting accuracy, reaction times to changes in the environments, abilities to anticipate marketing problems before they occur and the frequency with which marketing information is available to make key decisions. The relative stabilities of market shares and relationships with customers, suppliers and governments may also be appropriate measures of marketing performance. It is generally expected that the model will be able to distinguish between the designs of more successful and poor performing marketing units, given the existence of certain environmental characteristics. The present model attempts to include different measures of performance ranging from efficiency related factors (e.g. ROI, sales/costs), to a broader range of elements reflecting the effectiveness of marketing units (comparisons with other units, behavioural indicators, and good achievement).

Conclusion

The authors have attempted to identify potential relationships between the conditions of the external environments facing marketing/sales units and their structural design. The purpose of such an exercise has been to allow for the development of an integrative and testable model of environment-structure-performance as it pertains to the marketing units of organizations. At the theoretical level the authors hope that their discussion has shed light on certain under-researched aspects of the structural-contingency model of organizations and that their model may provide a general framework on which research in this field may proceed. The implications of the discussion for practicing managers, and marketing executives in particular, are that there may be ways in which marketing or sales activities can be more effectively designed and organized so that, in the light of given environmental conditions, the performance of the function can be enhanced.

In closing, the authors provide the following cautions to those scholars who seek to study the design of the marketing organization. First, informal structure, marketing theme, and organization culture may prove to be powerful forces which override or subvert the influence of formal structure on performance. These forces should be investigated coincident with an assessment of formal structure. Second, exploratory studies with suitable methodologies should be conducted with an aim to formulating explicit models and testable hypotheses. Third, since industry groups are so broadly defined that intra-group variance may be more prevalent than inter-group variance, investigators should restrict their initial efforts to investigations of one industry groupings. Finally, the issue of measurement is yet to be resolved. For instance, while many variables discussed in this paper may be measured in a straight forward objective way, others such as some features of organization structure and process may require more complex methods. However, methods do exist and may be adapted from the organization theory literature to the specific requirements of marketing.

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