

Organizational Structure, Firm Theory and Dominant Logic in Marketing Orientations “An Evolutionary Analysis”

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Abstract—Companies may adopt different marketing philosophies or orientations while creating, communicating and/or delivering value to their customers. Although the reasons for adopting different marketing orientations may vary broadly, it is imperative that different marketing approaches would require different arrangements of people in the organization along with different combinations of the tasks designated to carry out activities, i.e. different organization structures. Taking the progression in the firm theory as a supplementary force, this study provides an evolutionary analysis of how and why the organizations’ structures differ as their marketing orientations change. The work has been shaped as an essay and comprises of (1) a literature review of the evolution of basic marketing orientations, (2) an analysis of this evolution in relation to the shift in dominant logic of marketing, (3) the underlying rationale of how and why this marketing orientations’ evolution required organizational structure changes as the range of marketing relationships along with firm theory progressed over time and (4) the examples that illustrate how the organization structures change as marketing orientations shift.

Index Terms—Dominant logic of marketing, marketing orientations, organization structure, theory of firm.

I. INTRODUCTION

Companies adopt different approaches or philosophies while creating, communicating and delivering value to their customers or managing their customer relationships for the benefit of themselves or their stakeholders. In other words, companies employ different orientations while carrying out the marketing activities.

Although the reason or the reasons for companies’ adoption of different marketing orientations may vary broadly (from the ‘industry competed in’ to ‘customer segments served’; or from the ‘degree of regulation imposed’ to the ‘competency of the management’; or from the ‘financial capability of the firm’ to the ‘size of the organization’, etc.) it is imperative that different approaches for the creation, communication and delivery of value to the customers or for achieving an effective customer relationship management would require different arrangements and combinations of the people in the organization and the tasks designated to carry out these activities. Hence, since organizational structure can be defined as the arrangement of people and designated tasks to reach the organization’s objectives [1], it is also imperative that different marketing

orientations would require different organizational structures to enable the firm reach its objectives. Parallel to the changes in organizational structure induced by different marketing orientations, the role of the marketing within the firm and the range of marketing relationships also naturally shift.

Taking the progression in the firm theory (which is an influencer of both the role of the marketing function within the firm and the range of marketing relationships) as a supplementary force, this study provides an evolutionary analysis of how and why the organizations’ structures differ as their marketing orientations change. The work has been shaped as a conceptual essay and comprises (1) a literature review of the evolution of basic marketing orientations, (2) an analysis of these orientations in relation to the shift in dominant logic of marketing, (3) the underlying rationale of how and why this marketing orientations’ evolution requires organizational structure changes by studying the fundamental dimensions of centralization and formalization (i.e. how and why those two dimensions differ as marketing orientations change), and (4) the examples that illustrate how the organization structures change as marketing orientations shift.

II. MARKETING ORIENTATIONS IN RELATION TO THE SHIFT IN DOMINANT LOGIC OF MARKETING

As mentioned above, companies may adopt different orientations while carrying out their marketing activities. As References [2] and [3] point out that companies may adopt six different marketing orientations, namely, (1) *the production orientation*, the old non-interactive economic schools of marketing’s most used philosophy which focuses on improving the production and distribution, (2) *the product orientation* which focuses on the quality, performance and features of the product and product development, (3) *the selling orientation* in which the company makes the product and then seeks customers through large sales, advertising and promotion efforts [4], (4) *the marketing orientation* which holds that achieving organizational goals depends on determination of target markets’ needs & wants and delivering the desired satisfactions more effectively and efficiently than the rivals, (5) *the societal marketing orientation* where the marketing orientation is further enlarged and improved by the inclusion of consumer’s and society’s well-being concepts and finally (6) *the holistic marketing orientation* which holds the belief that all aspects of marketing strategy are interrelated and the businesses should create and implement marketing plans and strategies by taking the considerations of stakeholders, customers, employees, suppliers and the community as a whole into

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account, should be the sixth marketing orientation as it incorporates all the concepts of relationship marketing, integrated marketing, internal marketing and societal marketing.

Each of the above stated marketing orientations, which have been listed as per their evolution over time, emphasizes different aspects of marketing, crafts another role for marketing within the firm, entail different relationships for marketing function, focuses on different resources and thus requires new people arrangements and task combinations, i.e. new organization structures.

Parallel, if not one-to-one corresponding, to the above presented historical evolution of marketing orientations (i.e. parallel to the evolutionary sequence of marketing orientations from the production to the holistic marketing), Reference [5] states that *the dominant logic of marketing*, which used to focus on tangible resources, embedded value in the products and transactions, has shifted over time, and started to focus more on intangible resources, cocreation of value with customer along with relationships with stakeholders and formed a new dominant logic in which service provision rather than goods is fundamental to economic exchange.

This shift in the dominant logic is quite parallel to the evolution in marketing orientations for a couple of reasons. First, as per their definition and real life applications, while the old marketing orientations like production and product had focused more on tangible resources and tangible goods, the more recent the orientations of societal and holistic marketing adopted an approach which focuses more on intangible resources and service provision to customers.

Second, in addition to the simple tangible-intangible distinction of resources, service dominant logic [5] states that resources have also shifted from *finite stuff* that are acted upon to create effects (referred to as *operand* resources) to *infinite competencies and skills* (referred to as *operant* resources) which create effects directly by acting on classical operand resources or by acting on themselves. The old marketing approaches with a goods-centered dominant logic (like production, product and even selling) utilized classical factors of production to create effects, treated them as finite or limited resources and even defined wealth based on the ownership of these resources. In other words, for old marketing approaches, the resources were operand. However, more recent marketing orientations, like societal or holistic, consider the operand resources primary, as the simple producing and selling concepts were replaced by the well-being of all stakeholders' which required the direct incorporation of the competencies and skills of all those stakeholders. Hence, recent marketing orientations require and rely on resources which can continuously develop and regenerate themselves for an incessant and improving value creation.

Third, as the recent marketing orientations incorporate many different concepts of marketing (including relationship marketing, integrated marketing, internal marketing and societal marketing) along with the benefits of all of the stakeholders, operand resources which enable the value input of stakeholders become a key success factor for creating outputs at a relatively lower cost since the firm is not required

to incur a direct expense (in the classical way) while incorporating the value of these resources into its marketing process.

Hence, as the marketing orientations "flew" from production to holistic marketing, the dominant logic has shifted from goods to service provision over time (Fig. 1).

Among eight of the foundational premises (FP's) of Vargo and Lusch's [5] new dominant logic, FP₁ & FP₄, (namely, "fundamental unit of exchange being the application of specialized skills and knowledge" and "the fundamental source of competitive advantage being the knowledge") directly relate to "knowledge"; and, FP₆ & FP₈, (namely, "customer being always a coproducer" and "service-centered view being customer oriented and relational") directly relate to "customer". Those four premises jointly imply that knowledge *from* the customer (not *about* the customer) is a crucial *operant* resource for a better connection to the market. A consequent implication of this knowledge-market connection is organizational structure change, as when knowledge, customer, and knowledge from the customer become integral operant resources, new people arrangements and task combinations are required.

Reference [6] claims that companies are creating new organizational forms to increase their connection to the market where particular skills are needed and these new forms both follow and enable strategies of increasing dialogue and collaboration. Hence, as new dominant logic per [5], where new skills and competencies of operant resources are needed, knowledge *from* the customer will be another crucial operant resource which will be used to increase the firms' connection to the market. Therefore, the evolution of dominant logic from "goods" to "service provision" will also require creation of new organizational forms which will increase the dialogue and collaboration – i.e. connection to the market. The next section analyzes the formation of this new organization forms from the centralization and formalization dimensions point of view.

III. TWO FUNDAMENTAL ORGANIZATIONAL STRUCTURE DIMENSIONS – CENTRALIZATION AND FORMALIZATION

As mentioned above, organizational structure can be defined as the arrangement of people and designated tasks to reach the organization's objectives [7]. However, there is by no means a complete agreement among the theorists about the term organization structure. *Yet*, there is a considerable agreement on the dimensions of organization structure [8] where centralization and formalization are the most frequently studied in the strategy literature [9] and are among the most significant organizational predictors of firm performance [10]. Hence, the study will focus on and analyze the organization structure mainly from these two dimensions of organizational structure.

Centralization refers to the extent of decision-making authority concentration at the higher levels of an organization [10] or the degree of authority dispersion while making decisions [7]. Research suggests that greater centralization lowers the degree of participation in decision making; inhibits the healthy flow of ideas and constructive criticism within the organization; decreases the involvement,

communication, and interaction among the different strategic business units and the levels of the organization because decision making is concentrated at the upper level management [11].

As the marketing orientations change, the decision making authority concentration, i.e. degree of centralization, and thus the organization structure, also changes. For example, the companies with the production orientation focus more on the production and distribution efficiency which renders the interaction with clients or knowledge from the clients less important. For such companies, a centralized decision making process which focuses on the techniques to minimize of production and distribution costs would be sufficient. There is not much a need to disperse the authority to lower levels as the efficiency of those processes can be optimized by central decisions at the upper level.

Yet a more decentralized decision making process will be required for the companies with holistic marketing philosophy, since holistic marketing asks for interrelated marketing strategies which will require higher communication and interaction among different business units. Besides, in holistic marketing, plans and strategies should be constructed by taking the considerations of stakeholders, customers, employees, suppliers and the community as a whole into account - which requires healthy flow of ideas and constructive criticism. Hence, in a holistic marketing orientation, incorporation of ideas and decisions of units other than the upper level management are critical which in turn will necessitate a decrease in the degree of centralization.

Second organization structure dimension, *formalization*, refers to the degree to which jobs within the organization are standardized [7]. As the formalization increases, the job incumbent's discretion over what is to be done decreases. [7] Formalization would require repeating the same behavior under well defined, well-foreseen or controlled conditions. As a matter of fact, formalization is a measure of standardization. The greater the standardization, the less input the employee has into his or her work to be done, and less in engaging alternative behaviors or alternative behavior search [7].

As the marketing orientations change, the job standardization levels, i.e. degree of formalization, and thus the organization structure, also changes. For example, the companies with the production orientation will focus more on the efficiency of the production process and will need the efficient repetitive behavior of employees to ensure that the production process runs efficiently and smoothly under well-defined and well-designed controlled environments. For such companies, standardized jobs and a formalized structure will entail. Yet, for the companies with holistic marketing philosophy, where customer is an integral operant resource with whom value is cocreated, the degree of formalization should be low, as the incorporation of knowledge from the customer for the cocreation process will require different treatment(s) and communication(s) with different customers. Hence, the employees in companies with holistic marketing orientation should have more discretion on their jobs and engage in alternative behaviors as one-fit-all-size action(s) will not be enough to acquire the

collaboration of different customers.

IV. EXAMPLES OF HOW THE ORGANIZATION STRUCTURES CHANGE AS MARKETING ORIENTATION SHIFTS

As the marketing orientations evolved and the dominant logic shifted towards service provision over time, marketing strategies started to comprise not only the marketing department's efforts, but also the activities of every functional area that interfaces with customers, prospects [12] along with stakeholders, employees, suppliers and the community as a whole.

If we consider the financial services industry which is characterized by a high degree of regulation and control, competition has forced the institutions of the industry to adopt a more (if not *full*) holistic marketing orientation which resulted in an organizational structure change. Reference [12] states that in order to convert financial services firms into effective marketing organizations rearrangement of people and new tasks designations are required, as every individual in the firm, regardless of their position, should realize that many of their interactions are marketing acts that can help or inhibit corporate success. Hence by requiring every employee of the firm be responsible from marketing, Reference [12] proposes a holistic marketing approach rather than a simple marketing orientation which requires a new organization structure. For example banks or other financial services companies can spend millions on campaigns, yet forgetting that it is their switchboard operator who often creates the ever important first impression (or the moment of truth) may eradicate all their efforts if the switchboard operator has not realized his/her manner of greeting is a part of marketing.

Reference [12] also claims that the converting financial services organizations into an effective marketing organization will strengthen corporate performance, but in most cases it will also require organizational paradigm shifts, i.e. organizational changes. Reference [12] also adds that so as to mobilize a financial service firm into an effective marketing organization successfully, employees who used to have powerless positions should be empowered and be transformed into value added corporate brains (which is referred to as *autonomy*); and flexible, multifunctional teams should be established to explore new challenges (which is referred to as *team support*). Thus, Reference [12] proposes that a holistic marketing should be coupled with organization structure changes in financial services.

In line with [12], Reference [13] points out that the Range of Marketing Relationships evolved in the sequence of discrete transactions, repeated transactions, long-term relationship, buyer and seller partnership, strategic alliances, network organizations and vertical integration. This pattern shows a parallel evolution to the above mentioned marketing orientations flow or dominant logic shift (Fig. 2).

Reference [13] states that as the form of marketing relationship expands from *simple discrete transaction*, where marketing's role will be just confined to *find buyers*, to *vertical integration*, where the whole processes of *acquisition from the supplier to the value creation for the customer are fully integrated*, the new role of marketing across corporate,

business (or Strategic Business Units) and functional (or operating) levels should be reconsidered. Thus, the expansion of the marketing relation range requires the marketing be responsible from market structure analysis, customer orientation and advocacy, and positioning the firm

in the value chain at the corporate level – which will impose and necessitate a structural change in the organization as rearrangement of people and new tasks designations will be required.



Fig. 1. Parallel shifts in marketing orientations and dominant logic of marketing.



Fig. 2. Parallel shifts in marketing orientations, dominant logic of marketing and range of marketing relationships.



Fig. 3. Parallel shifts in marketing orientations, dominant logic of marketing, range of marketing relationships and the theory of firm.

Reference [14] points out that the theories of firm has evolved in the sequence of neoclassical model of microeconomic theory, the market value model of financial economics, the principal-agency (or the agency cost model) of managerial economics, the behavioral model and the resource dependence model of behavioral economics and finally the constituency based theory of firm. This sequence is also parallel to the previously stated sequences (Fig. 3) in the sense that the role of marketing expands from the simple delivery of products to the users to the satisfaction of the long term needs of the customer coalitions where coordination of financial, technical, legal functions and negotiations among those functions are required. In this regard, marketing’s responsibility will be promoting the marketing concept as a philosophy of the entire firm. In order to assume such a cross-functional role, the structure of the organization should be altered in such a way that the functions are less formalized and the decision making is more decentralized.

Parallel to the above mentioned evolutions, Reference [15] points out that until 90’s, models of “product (brand) managers”, who served as mini CEO’s orchestrating other activities for the success of the product, and “marketing staff”,

who served as responsible for consumer information and advertising/promoting activities, have been dominant. Yet this structure used to be effective when the “make and sell” packaged goods companies, which generally adopted product or selling approaches, were enjoying high consumer trust, growing prosperity, and homogenous demand (Fig. 4).

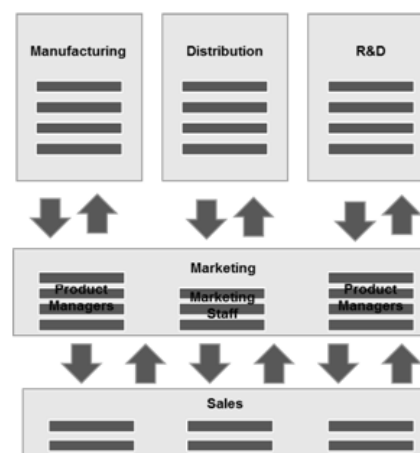
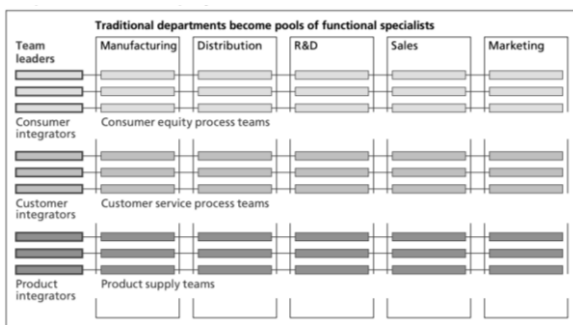
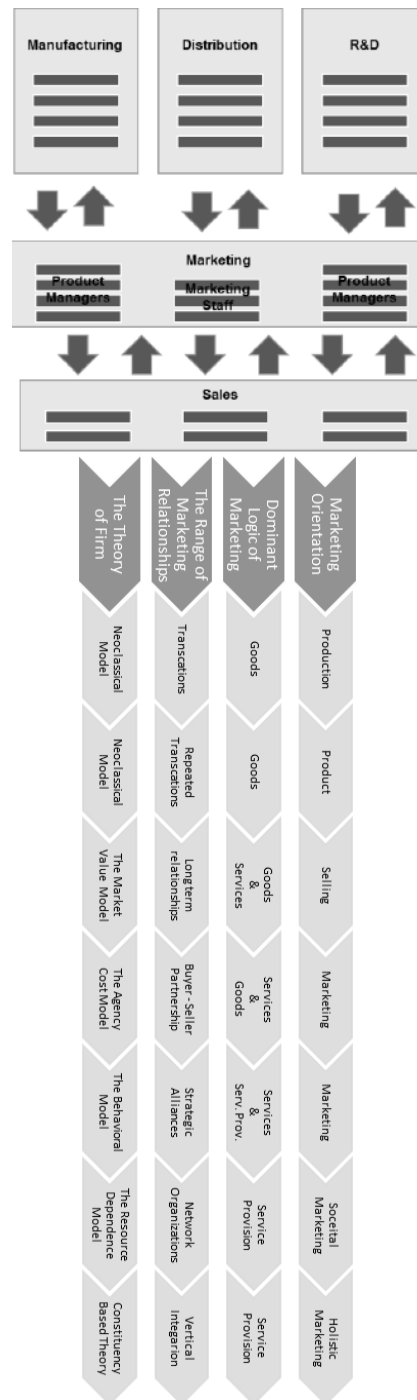


Fig. 4. Classical organization structure depicting the “used to be” role of marketing.

However as the customers have become more sophisticated, demanding and micro-segmented; the technology has become more interactive; and the distribution channels have become too complex, this traditional structure has fallen short as a more holistic view of marketing which ensured the integration of cross-functional roles became required.

Thus Reference [15] states that successful companies started to organize around “integrators” and “functional specialists” and link these integrators and specialists together through teams and processes rather than functional or business unit structures. According this new paradigm of Reference [15], *integrators* who will replace the brand managers will be responsible for serving each distinct consumer, channel, or product segment by (1) understanding the real drivers of profitability through identifying the market segments to compete in and resource to use; (2) working across the value chain to develop genuinely consumer-focused strategies and (3) leading cross-functional teams for executing these strategies. On the other hand, the *specialists* who will replace the marketing staff will provide the capabilities of integrated marketing intelligence, pricing strategy, promotion effectiveness, advertising, and direct marketing. The specialists will also assume the responsibility of developing models that predict the likely customer behavior on the basis of past behaviors, interpret and communicate the results of these models to formulate the customer oriented marketing strategies. While the transition from brand managers to integrators and from marketing staff to specialists would require a more holistic and integrated marketing orientation, it will also require an organizational change. Such a change would result in a “process focused matrix structure” where the integrators and specialists will be held together by processes and teams rather than the traditional functions or business units (Fig. 5). Teams will be organized around key cross-functional business processes to manage across the functional and business unit silos, and the traditional departments will become the pools of functional specialists which will ensure superior customer service.

flexible infrastructures and more fluid resources to successfully identify the opportunities. Thus companies should be organized around groups in which people with product, segment and channel knowledge sit together.



*Source: Adopted from Reference [15]

Fig. 5. The matrix organization structure of a process focused company*.

Another example for the marketing orientations’ effects over organization structures is given by Reference [16] which claims that the basis for creating successful marketing has expanded from one dimension to three, namely, from product benefits to functional, process and relationship benefits. Hence, Reference [16] claims that the product orientation is not enough for marketers and larger perspective should be adopted. Reference [16] also claims that most marketing organizations who adopt this enlarged three dimensional marketing approach will have to develop more

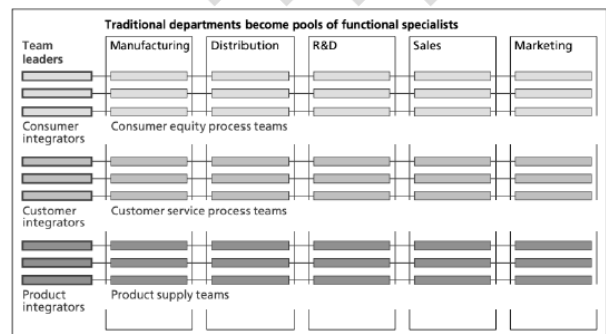


Fig. 6. From classical organization structure to matrix organization via shifts in marketing orientation, dominant logic of marketing, range of marketing relations and theory of firm.

Thus, as the theory of firm evolved from the over conceptualized neoclassical model of profit maximizing entity under perfect competition to constituency based theory which integrated all the stakeholders into the broad paradigm, marketing started to function as a vertically integrated system or as a structure made up of continuous networks that provides enhanced focus on long-term customer relationships, partnerships, and strategic alliances.

Actually, such a role change was also a requirement generated by the increased sophistication of customers, intensified interactivity of the technology and augmented complexity of distributional channels - which collectively forced the dominant logic of marketing to shift towards service from goods and the orientation towards a more comprehensive holistic approach from the straightforward process of production (Fig. 6).

Those developments which integrated the customer into the processes of the firm rendering the consumer a coproducer or value cocreator, pushed the organizations to adopt a process focused matrix structures which are characterized by a more decentralized decision making process and a lower level of formalization. Decentralization and lowered formalization were required by the new continuous networking structure of marketing which needed higher communication and interaction across strategic business units, and more empowerment of employees on their job discretion.

Reference [13] provides IBM as an example for changing its organization structure as a network organization to integrate different stakeholders into its marketing process by converting to "open architecture structure" which made the company's technology widely available to all software writers. Hence, to satisfy the increased sophistication of customers and intensified interactivity of the technology, IBM shifted towards a more service dominant logic and provided more empowerment to its new employees, (outsourced software writers) on their job discretion.

V. CONCLUSION

Companies employ different orientations while carrying out their marketing activities. Although the reason or the reasons for companies' adoption of different marketing orientations may vary broadly, it is imperative that different approaches for the creation, communication and delivery of value to the customers or for an effective customer relationship management would require different organizational structures.

Many different theoretical conceptual paradigms including marketing orientations, dominant logic of marketing, range of marketing relationships and the theory of firm depict a parallel evolution and converge to the holistic marketing orientation for the creation of offerings that are valuable to the customers. This convergence, hence the holistic marketing, requires an increased concentration on intangible resources, customers, and relationships with stakeholders. Consequently organizational structures had to change since knowledge, customer, and knowledge from the customer have become integral resources with such shifts.

Among many others, References [12]-[16] provided robust rationales and examples of how the change (generally expansion) in the marketing orientations resulted in increased "decentralizations" and decreased "formalizations" in organization structures.

Thus, organization structures of companies which shift towards holistic marketing philosophy will be characterized by a more decentralized decision making process and a lower level formalization, since holistic marketing requires interrelated marketing strategies, higher communication and interaction across strategic business units, and more empowerment of employees on their job discretion.

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