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 aetion on organizational performance, the research evidence is less than conclusive (Pennings 1987). More recent research has provided some potential avenues for further investigation of this area (Manfield et al. 1980; Drinker 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 directly 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 market 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 theoretical 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 fortuitously.

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 73 commercial companies found that conditions of the organization's market 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 Smith 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 contributions 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 Gronnaug 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 characteristics 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 the work of Lawrence and Lorsch (1957), 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 along a vertical dimension, whereas the existence of program managers in a marketing organization would indicate 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 oversuperintendence. Given this rather simplified explanation of administrative 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 environment 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 not necessarily narrow is at least "bounded" and possibly more amenable to research than other broader interpretations. Pease (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 (e.g., 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