# The relationship between marketing control mechanisms and firm performance

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**Abstract:**

Marketing professionals and academics face the challenge of showing how marketing costs affect shareholder value. According to literature, marketing control mechanisms affect organizational results, making them a component of marketing performance. However, there is little or no empirical evidence to support that claim, which is why the aim of this study is to examine the relationship between marketing control mechanisms and the marketing process. In particular, the paper focuses on the relationship between the strategic decision-making process with financial and organizational results. The paper based on 201 cross-sectional surveys involving managers of Colombian companies, using PLS-SEM in order to verify the proposed hypotheses. The results show that there is a relationship between marketing control mechanisms and strategic decisions, and that it has a significant impact on organizational results.

**Keywords***: marketing control, marketing performance, firm performance.*

**Track***: Marketing strategy & theory*

## 1. Introduction

Marketing professionals and academics find themselves in a position where they have to be more responsible in showing how marketing expenses help increase value for the actors involved (Rust, Ambler, Carpenter, Kumar, and Srivastava, 2004). From an organizational point of view, making marketing decisions based on detailed quantitative information provides great importance to the marketing departments of an organization. It also justifies the marketing team's use of scarce and valuable resources and helps identify drivers to establish connections between strategy and organizational results (Petersen et al., 2009). From an academic perspective, it is difficult to synthesize the results from different studies concerning the impact of marketing because it is necessary to demonstrate the causal relationship between the actions and their multiple outcomes, including the attitude of clients, product markets and financial outcomes (Hanssens & Pauwels, 2016; Verhoef & Pennings, 2012).

In recent years, the need for organizations to demonstrate the usefulness of their marketing process has been emphasized, in particular the impact on organizational value, which is why there has been a significant increase in the use of metrics to measure effectiveness and develop strategies (Petersen et al., 2009). The need for establishing marketing metrics in organizations is now beyond question. Given that marketing investment programs are seen as expenses, it is necessary to analyze their financial and firm value impact, which involves measuring the on the organization's value, to understand how marketing assets contribute to short-term profits and provide potential for growth and sustained profits in the long term (Rust et al., 2004).

Some studies have already shown the relationship between the marketing process and organizational value. Edeling and Fischer (2016) conducted a meta-analysis of 99 papers involving the impact of marketing capabilities, the marketing mix, customers and brands on market capitalization, return on investments and the value of tangible and intangible assets (Tobin's q). According to that meta-analysis, all the variables showed a significant degree of elasticity except the product variable. It can be explained due to a relative scarcity of studies meeting the meta-analysis requirements or because of the fact that, the impact of the products reflects the brand's value.

Katsikeas et al. (2016), on the other hand, analyzed 998 papers, 665 of which were published between 2001 and 2011, with a particular emphasis on which operational performance metrics were the focus of the studies involved. However, the authors did not take into account the research linking strategy, resources and marketing activities to organizational value, assuming that that dimension has to do with the decision-making process, rather than with the results. Their findings highlight that the variables ‘brand’ and ‘client’ are most closely connected to organizational results.

Marketing process performance has several dimensions (Clark, 1999; Morgan, Clark, and Gooner, 2002; Rust et al., 2004), including strategy, resources and capabilities. From that dimension and, in accordance with Scopus in October 2018, the most commonly studied variable in relation to the impact it has on organizational results is market orientation (184), followed by organizational strategy (96) and market capabilities (41).

Inherent in the successful implementation of a strategy and the management of the company’s resources and market capabilities, there are control mechanisms designed to ensure the desired outcome. In literature, there is no consensus on the relationship between the marketing control mechanisms and organizational results. For example, Boag (1987), based on an explorative study among 20 companies, found a connection between the marketing control system and some financial outcomes, such as cash flow, profitability and sales growth, while Jaworski (1988) offers theoretical hypotheses to explain the impact of marketing control mechanisms on market results and other management performance aspects. Jaworski, Stathakopoulos, and Krishnan (1993) provide empirical evidence in support of the relationship between marketing controls and the marketing manager’s performance. Likewise, Homburg, Artz, and Wieseke (2012) argue that the system used to measure the marketing process’s performance itself is a control mechanism.

Existing studies suggest, however, that there is a link between organizational control and organizational performance. For instance, looking at the impact on the organizational performance of the strategy and organizational planning and control applications (Duh, Chow, and Chen, 2006) and the impact of the consistency in design-related decisions of control systems on management (Gong & Ferreira, 2014).

Marketing control mechanisms are applied to strategy, programs, plans and people (Jaworski, 1988), and their scope is determined by the strategy and the associated objectives (Hulbert & Toy, 1977). As such, keeping in mind that organization control mechanisms have been linked to organization outcomes, marketing control mechanisms can be integrated into the performance of marketing process as a variable shaping the strategy, resources and activities. In addition, marketing control mechanisms affect the marketing programs and assets, as well as the financial and organizational performance.

In light of the arguments presented above, the aim of this paper is to analyze the relationship between marketing control mechanisms on the one hand, and strategic decisions and organizational results on the other.

## 2. Research method

### *2.1 Data collection and sample characteristics*

To analyze the relationship between marketing control mechanisms, an empirical study was conducted among the marketing managers, brand managers and product managers of Colombian companies. The research sample consisted of 2,000 Colombian companies from different economic sectors. The data was collected using an online survey. A pilot survey was conducted among the marketing managers of 20 companies from different economic sectors and 8 academics. The survey was sent a second time to people who failed to respond the first time. Overall, 201 surveys were completed and returned. The respondents were sent a report with the study's main findings. Table 1 shows the sample characteristics.

**Table 1. Sample characteristics**

| **Number of employees** | | **Sales volume (mill. U$)** | |
|---|---|---|---|
| < 50 | 27% | < 3.5 | 24,9% |
| 51 – 200 | 24% | 3.5 - 5 | 10,4% |
| > 200 | 49% | 5 – 6.5 | 7,0% |
| | | 6.5 - 25.000 | 3,5% |
| | | 25.001 - 30.000 | 5,5% |
| | | > 30.001 | 48,8% |
| Sample: | | 201 | |

### *2.2 Measurements*

The survey was designed using items from earlier studies. Each survey's component included items that were measured on a 7-point Likert scale. The Marketing Strategy component was organized in accordance with Slater and Olson (2001), and was adjusted in accordance with the modifications suggested by Walker, Ruekert, and Ruekert (1987) and Varadarajan (2010).

The Marketing Control Mechanism component consists of the category of formal process control over resources and capabilities, which was supported by the scale proposed by Miao and Evans (2014). The category of formal control of results was based on Jaworski et al. (1993) and Guenzi, Baldauf, and Panagopoulos (2014), and that of professional control on Jaworski et al. (1993).

The Market Results component was based on the earlier work by Petersen et al. (2009), O'Sullivan and Abela, (2007) and Slater and Olson (2001), and the digital marketing item on Järvinen and Karjaluoto (2015). Finally, the Financial and Organizational Value component was supported by the proposals of Katsikeas et al. (2016).

The latent variable regression analysis used in this study was applied using the Smart-plus 3.0 PLS program, based on the partial least square optimization (PLS) technique, a multivariate analysis used to test structural models recommended in models of an exploratory nature.

In order to analyze the measurement model, load factors that greater than 0.5 were considered optimal for developing a scale were evaluated (Chin, 1998), while a reliability analysis (Cronbach's Alpha > 0.8) and a composite reliability analysis (> 0.8) were also considered good. On the other hand, the average variance extracted (AVE) had values above 0.5, which is consistent with the acceptance criteria (Fornell & Larcker, 1981). The discriminant validity was checked using the Fornell-Larcker criterion, through this, it can be concluded that each variable is related more closely to its own items (Fornell & Larcker, 1981).

## 3. Empirical Testing of Hypothesized Model

The model shows its predictive potential by showing that all the values of $\mathcal{R}^2$ are greater than 0.1, and by verifying the validity of the effects of the dependent variables on the independent variables. This was made through a re-sampling being performed using a bootstrapping technique involving 5,000 random samples to test the parameters of the model. In addition, SRMR = 0.076 <0.1 (Hu & Bentler, 1998), RMS_Theta = 0.12 <0.13 (Hair, Hult, Ringle, and Sarstedt, 2014), NFI = 0.9.

The results in Figure 1 show that almost all of the causal relationships are significant. Table 2 shows $\mathcal{R}^2$ between components.

**Figure 1. Model results**

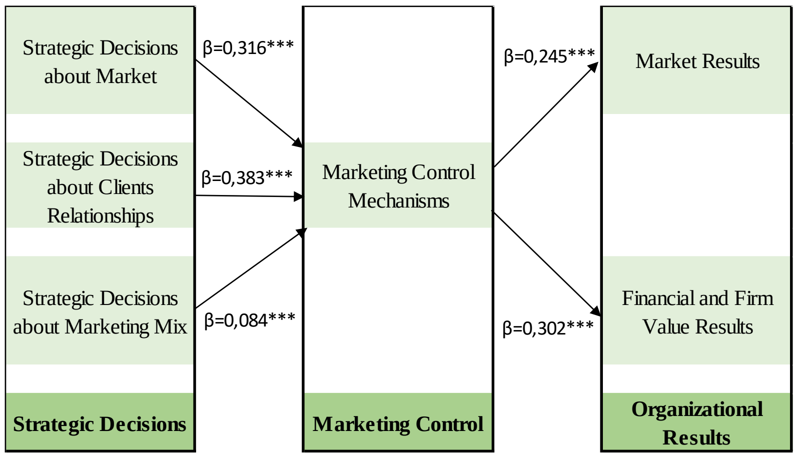


**Table 2. R Square between components**

| **Components** | Marketing Control Mechanisms | Financial and Firm Value Results | Market Results | Strategic Decisions about Market | Strategic Decisions about Clients Relationships | Strategic Decisions about Marketing Mix |
|---|---|---|---|---|---|---|
| Marketing Control Mechanisms | 1,000 | | | | | |
| Financial and Firm Value Results | 0,302 | 1,000 | | | | |
| Market Results | 0,245 | 0,298 | 1,000 | | | |
| Strategic Decisions about Market | 0,497 | 0,308 | 0,355 | 1,000 | | |
| Strategic Decisions about Clients Relationships | 0,533 | 0,137 | 0,167 | 0,398 | 1,000 | |
| Strategic Decisions about Marketing Mix | 0,304 | 0,376 | 0,217 | 0,344 | 0,293 | 1,000 |

In this study, the Marketing Control Mechanisms was used as an element to increase our insight into the performance models of the marketing process, as suggested in literature, but which so far has not been empirically demonstrated. The results of this study have various implications for academics and marketing professionals. From an academic perspective, it has been empirically proven that Marketing Control Mechanisms are related to an organization's Strategic Decisions and that they have a significant impact on Market and Financial Results. According to our findings and from a professional perspective, marketing managers have to integrate Marketing Control Mechanisms into their Strategic Decisions, since they have a positive impact on their firm's Organizational Results. This means that this approach allows them to improve their decision-making and optimize the allocation of their marketing resources. On the other hand, Control Mechanisms have a strategic connotation in the marketing-related decision-making process, given that they make it easier for marketing managers to compare their objectives to the results they have achieved, adding value to the marketing departments. This is an exploratory study designed to increase our understanding of the role of Marketing Control Mechanisms in explaining Organizational Results. These findings have a broad potential to add value to existing marketing practices from a theoretical as well as a practical perspective.

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