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The Influence of Consumer and Brand-Oriented Capabilities on Business Performance in Young Firms: A Quantitative Causal Model Analysis

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***Abstract*—**Customer and brand-oriented capabilities have been identified as key influencing capabilities for business performance. Especially in the early years of the firm, it is crucial to develop and consciously manage these capabilities. In this paper, the results of a quantitative analysis, investigating the causal relationship between customer- and brand-oriented (marketing) capabilities and business performance will be presented. The research displays the dependencies between the constructs and will provide practical implications for young firms in the acquisition and management of these capabilities.

***Keywords*—**Brand-oriented capabilities, customer-oriented capabilities, entrepreneurship, resource-based theory, young firms.

I. Introduction

IN the last decade, resource-based theorists have shown an increased interest in the topic of marketing-related capabilities. These capabilities include the managerial perspective on the firm from different angles, which represents the paradigm-shift of marketing from a purely transaction-based formative discipline to an integrative, brand-based approach [1]. Looking at the perspectives, the inside-out view is represented through brand-orientation and the outside-in view of the firm is represented by consumer-orientation. The capabilities representing both views need to be developed already in the early stages of the firm to leverage the full impact on business performance, but also in later development [2]. However, despite its importance, especially for young firms, empirical research on this topic is limited. Therefore, a closer investigation of the development of customer- and brand-oriented capabilities and their impact on business performance needs to be investigated. For the analysis, a quantitative approach was chosen to analyze the causal model between the three constructs.

II. Conceptual foundations

A. Theoretical Background: The Development of Customer and Brand-Oriented Capabilities in Young Firms

Young firms in the first phase of their life cycle face special challenges and opportunities. This phase – also called the birth phase, or startup phase - is dominated by the founding entrepreneurs and their “big idea” for the firm. The newly formed team is still small and starts to set up new structures and gather capabilities through their network from previous occupations and their professional experience [3]. In this phase, the strategy, as well as products and services, are still conceptual and the founders are still mainly delivering ideas. The firms are still focusing on innovation and the experimentation with resources [4]. In this phase, entrepreneurs need to carefully acquire, manage and also shed resources they do not need for further development. Since the firms are still small and they are limited in resources, managerial cognition is especially important in this phase [5] and decisions taken in this stage in regards to resources and capabilities are path breaking for the future development and success of the firm. Unfortunately, there is no clear definition on the timing and duration of the life cycle stages in literature [6]. The only authors who give an indication regarding time are Miller and Friesen, who define the duration of the “Birth phase” up to 10 years [7]. Therefore, the author decided to define “young firms” as firms that were 10 years of age (founded in the year 2004 and after).

In resource-based research, customer- and brand-oriented capabilities have gained quite a lot of interest in empirical research. In the different analyses, the capabilities are combined differently and are very often put into context with other organizational capabilities, research and development, or innovation. For young firms, there is very little and contradictory research on the topic of the development of customer- and brand-oriented capabilities. Only few authors like Rode & Vallaster [8], or Bresciani & Eppler [9] have conducted empirical research on the capabilities-development for firms in the birth-phase. Therefore, it is crucial to conduct empirical analysis on these capabilities.

Customer-oriented marketing capabilities: These capabilities are based on the understanding that customers are valuable assets in the development of the firm and its products and services. Firms are leveraging the understanding of the market on a higher strategic level [8]. Especially in the early stages of the firm, the team is very often in direct contact with the customer and formal research structures are not established. Therefore, young firms have to focus on an overall strategic approach of the firm’s relationship with the consumer. They analyze the integration of the customers’ view in strategic decisions, the investment in and measuring of this relationship with the customer as an asset [9]. This approach is related to the theory of Saxe and Weitz, which focuses on the application of the customer-oriented marketing concept by

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every individual employee of the firm, in this case, the salesperson who is in direct contact with the customer [10]. Therefore, the strategic aspect of customer-orientation can be analyzed using this customer-oriented selling scale. Another important factor in customer-orientation is the development of products and services according to customer needs, taking into consideration market segmentation and targeting of specific customers and generating their input for improvements [11]. Vorhies takes this market view to the product-level, including product-related capabilities such as investigating whether the product is meeting customers' needs and new product development [12]. The indicators for including customer feedback in product development also need to be considered when assessing customer-oriented capabilities.

Brand-oriented marketing capabilities: These capabilities are based on the foundation of the inside-out view. Brand management capabilities focus on the creation, development and maintenance of the brand and its brand equity. Morgan and colleagues introduced a measure for strategic branding capabilities, naming them brand management capabilities. It includes all main questions, measuring necessary items for brand-management; the use of customer insights to identify valuable brand positioning, the establishment of desired brand associations in customers' minds, the management of a positive brand image relative to competitors, high level brand awareness, the leverage of brand equity into preferential brand positions, and the component of tracking brand image and awareness among target customers [13]. In addition to this measure and its' items, also functional brand-oriented capabilities have to be included in the assessment. When it comes to these capabilities, there is a variation of the set of assets depending on the industry, business type and products or services the firms provide. However, for all young firms, naming capabilities are the most important factor when it comes to functional branding in terms of creating and executing a value-generating brand [14]. Therefore, the assessment of naming capabilities also needs to be included when creating the construct of brand-oriented capabilities.

Business performance: Measuring business performance, especially financial performance for young firms is challenging. Since they are operating in a highly unstable environment and with little information, their results can be a constant subject to change and negative performance in profits might not be attributable to the firms' performance [15]. In the definition of business performance, it is therefore important to include operational performance alongside financial performance. This inclusion of further indicators such as sales performance or market share allows for a more detailed view on the effect of capabilities on the organizational performance [16]. Measures such as return on shareholder equity, return on investment and other profit ratios are used to assess financial performance. The sole use of financial indicators might be misleading since the competitive environment is not reflected. Therefore, these measures are combined with measures for product market performance such as sales levels, sales growth, market share and market share growth to reflect the market situation.

Strategic posture: As previously mentioned, in the early stages of the firm, the decisions on the acquisition, management and shedding of resources and capabilities have a major impact on the success of the firm. The perceptions and values of the founders are significantly shaping the development of products and services, as well as the strategy of the firm. The influence of the founder or the founding team on path breaking decisions for the firm has been identified in life cycle literature and also been analyzed by several researchers in the field of entrepreneurship. Decisions on which capabilities to focus on and which marketing activities to pursue are significantly influenced by the founders' competitive orientation, risk-taking and innovation-capabilities [17]. This effect of management attitude and the underlying strategic assumptions about the market on the development and the focus of marketing capabilities, therefore, need to be considered when analyzing the relationship between customer- and brand-oriented capabilities with business performance in young firms.

B. Theoretical Development: Creation of a Causal Model Relating Customer and Brand-Oriented Capabilities with Business Performance for Young Firms

A broad set of resource-based theory literature provides evidence that strategic as well as functional customer-oriented capabilities have a positive impact on firm performance in general. As previously mentioned, specific research on young firms is rare and the relationship between the three variables of customer-oriented capabilities, brand-oriented capabilities and business performance needs to be further analyzed. In order to test the impact of customer- and brand-oriented capabilities on business performance of young firms, the following hypotheses were formulated:

- H1: Customer-oriented marketing capabilities are positively related to the business performance of young firms.
- H2: Brand-oriented marketing capabilities are positively related to the business performance of young firms.

The causal relationship of customer-oriented, as well as brand-oriented capabilities and business performance is moderated by the strategic posture of the founders. Therefore, a moderating variable of strategic posture is introduced. The relationship of the different variables is displayed in Fig. 1.

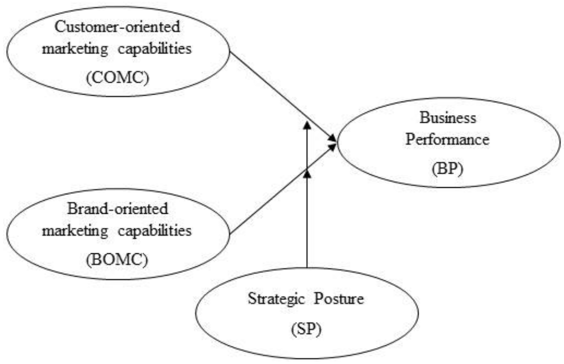

Fig. 1 Causal Model

All four variables are latent reflective variables comprised of the items described above. In the next step, the model needs to be tested through empirical research.

III. Methodology

A. Data Collection: Quantitative Survey

A quantitative (structured survey) research method was deemed appropriate to enable empirical testing of the causal model. Since the author was looking to address a very specific audience, which is not easy to target, the sampling frame was combined of three main types of sources: 1) Address databases, where members were contacted directly by the author via email, 2) entrepreneurial associations, which distributed the survey, 3) entrepreneur-related groups in business- and social-networks where the survey was distributed. The survey was provided in English and German.

All constructs are measured with 7-item Likert-scales, because they still provide a short testing time while providing less uncertain responses. To test the constructs in the survey, the author focuses on established research constructs. The constructs are indicated in Table I.

TABLE I
Research Constructs for Latent Variables

Customer-Oriented (Marketing) Capabilities
Customer-oriented strategic marketing capabilities [18]
Customer-oriented functional marketing capabilities [19]
Brand-Oriented (Marketing) Capabilities
Brand-oriented strategic marketing capabilities [20]
Brand-oriented functional marketing capabilities [21]
Business Performance
Financial performance [22]
Market effectiveness [23]
Strategic Posture
Strategic posture [24]

The surveys were distributed to the regarding target audiences of the sample as previously described, either via email or via platforms. To increase responses, incentives were provided and reminders were sent. The target of the survey was only firms founded in 2004 and after. Also, the questions in the survey could only be answered by individuals who have been involved in the creation of the company's brand. To control for these criteria, filter questions at the beginning of the survey were created. The items were based on slightly modified versions of the A total of 413 usable responses were obtained.

B. Data Analysis: Structural Equation Modeling

After an analysis of construct validity by a correlation analysis and a subsequent calculation of the Cronbach's alpha for the latent variables, a Principal Component Analysis was conducted to reduce and simplify the previously described rather large number of inter-correlated items to a representative set of constructs. The factors with eigenvalue higher than 1.0 for are summarized in Table II. The correlation patterns were used to specify the Structural Equation Model. With three factors for customer-oriented (marketing) capabilities (COMC), four factors for brand-oriented marketing capabilities (BOMC).

TABLE II
Principal Component Analysis Statistics

Initial Eigenvalues	% of Variance	Cumulative %
Customer-Oriented (Marketing) Capabilities		
4.55	37.91	37.91
1.37	11.40	49.31
1.05	8.78	58.09
Brand-Oriented (Marketing) Capabilities		
4.48	28.03	28.03
2.19	13.70	41.73
1.20	7.48	49.22
1.04	6.48	55.69
Business Performance		
6.74	51.85	51.85
1.64	12.63	64.49
1.24	9.53	74.02

COMC Component Loadings: For COMC, the 12 items are reduced to three components. Nine items load on the first component, which is describing and summarizing strategic customer orientation. The second component is fully loaded by one factor and partially loaded by one of the strategic components and can be described as product customization. The third component is loading on two factors, which are focusing on product substitutability and competition. Rotation converged in six iterations.

BOMC Component Loadings: For BOMC, the 16 items are reduced to four components. The first seven items, load on the component of strategic brand-orientation. The other components are focusing on items concerned with brand naming. Component two, summarizing all items focusing on name clarity is loaded by five components. On component three and four, two items each are loading. The third component is focusing on name identifiability, and the fourth component is focusing on brand distinctiveness.

BP Component Loadings: For BP, the 13 items were reduced to three components. In this construct there are quite a few overlaps of factors. However, this is logical, since financial performance and market effectiveness measures are strongly connected. Especially the factors of the first component, financial growth and the second component sales efficiency, the financial growth indicators and sales items loaded partially on each other. Seven items fully loaded on the first component and five on the second. The third factor is focusing on the topic of customer efficiency items as part of market efficiency.

From the above described components, new items were calculated as regressions in SPSS. These new items were used in the calculation of the confirmatory factor analysis. For COMC, items were reduced from twelve to three, for BOMC, items were reduced from 16 to four and for BP, items were reduced from 13 to three. The moderator SP was reduced from six items to one.

To construct the final model in the management research, the widely used analytical method of structural equation modeling, which allows analyzing latent, unobserved variables represented by data from single, observable indicators. A confirmatory factor analysis using the maximum likelihood method was conducted. To improve the rather high p value, the author optimized the model by eliminating the factor of name identifiability. Removal of this factor has not only optimized the p value to an acceptable value of 0.086, the CFI and AGFI have also been slightly improved. Also in comparison to similar studies on marketing capabilities, these values were quite satisfactory. In a final calculation of the factor reliability and the average variance extracted for the three latent variables, the values are within the acceptable range and above the cutoff points. These calculations all indicate that the model has a good fit and is reliable.

IV. Results

The final model was derived of the factor analysis with the maximum likelihood method that describes the relations between customer-oriented marketing capabilities, brand-oriented marketing capabilities and business performance in terms of unstandardized regression weights. Looking at the factor loadings of the latent variables/indicators, they are all above the cutoff point of 0.4 [25]. Therefore, all the relationships are also valid.

In analyzing the results of the exploratory and confirmatory factor analysis, the author concluded that the proposed relationships are strongly supported. What can be clearly seen is that H1 and H2 positively relating customer-oriented marketing capabilities, as well as brand-oriented capabilities with business performance for young firms, are supported by the data (estimated factor loading COMC => BP = .79, estimated factor loading BOMC => BP = 1.12). Therefore, both hypotheses can be confirmed. Especially the influence of brand-oriented marketing capabilities on business performance is indicated to be very strong for firms in the first 10 years of business. But also customer-oriented marketing capabilities do have a strong impact on business performance. These results demonstrate support for the impact of customer- and brand-oriented marketing capabilities on business performance for young firms.

One thing that has to be reported is the covariance between customer-oriented marketing capabilities and brand-oriented marketing capabilities. There are various suggestions in literature, how to address this covariance. As suggested by Jarvis and colleagues, who have critically reviewed the solutions suggested in literature, the author has decided to calculate the estimated correlation between the two latent exogenous variables and report it [26]. The correlation between the variables of customer-oriented marketing capabilities and brand-oriented marketing capabilities is 0.11, which is not a very high value and therefore acceptable for the model.

Looking at the reflective relationships of the latent variables with their components, strategic customer-orientation is the factor with the strongest loading of the customer-oriented marketing capabilities variable (factor-load: 1.00). However, also product customization (factor-load: 0.87) and product uniqueness (factor-load: 0.70) demonstrate high loadings. This means that for young firms' strategic customer-oriented capabilities are mostly impacted by the latent variable and therefore most important for young firms. The two product-related variables of product customization and product uniqueness are less influenced and not as important.

For the variable of brand-oriented marketing capabilities, the component with the strongest factor-load is brand distinctiveness (factor-load: 1.18), followed by name identifiability (factor-load: 1.00). Strategic brand-orientation has the weakest loading of all three variables (factor-load: 0.48). For young firms, functional capabilities in branding seem to be more influenced by the latent variable. A distinctive brand and a clear and identifiable name are highly loaded and very important. Strategic brand-orientation on the other hand is rather weak.

The variable of business performance loads strongest on sales efficiency (factor-load: 1.39), closely followed by financial growth (factor-load: 1.00). The weakest load of the variable is on customer efficiency (factor load: 0.61). In light of the development stage of young firms, the strongest loading of the latent variable on sales efficiency is reflecting the need to generate demand and growth in sales. As previously mentioned, the business of young firms is not yet stabilized and this could explain why financial growth and customer efficiency are not that highly loaded.

V. Conclusions and Suggestions

This research provides several important implications on marketing capabilities in young firms and their impact on business performance in the first 10 years after founding. In the early stages of a firm, the main task is the organization of resources and a flexible development of capabilities. Customer- and brand-oriented (marketing) capabilities need to be acquired, developed, and structured by their managers to be fully leveraged. Especially brand-oriented marketing capabilities are positively related to business performance and display an even higher influence on business performance than customer-oriented marketing capabilities. These capabilities focus on the brand itself, its positioning and its communication. If they are well-developed, superior reputational assets (brand name, reputation, credibility) can increase sales levels, financial performance and market share compared to competitors. Especially functional capabilities as the creation of a distinctive brand and the creation of a clear name are most influenced by these marketing capabilities. An integrated, unique brand appearance and a clear distinction towards competitors are a clear sustained competitive advantage. The creation of the brand is an iterative process and the capabilities developed vary between the different firms and age groups within the first 10 years. Customer-oriented marketing capabilities also have a positive impact on the business performance of young firms. Mainly strategic customer-oriented marketing capabilities are important to develop. Strategic customer-orientation such as customer relationship management capabilities or market sensing capabilities is the most important factors in this field. These capabilities are already developed early in the life cycle of the firm. Young firms often identify a customer need in their immediate environment and then create products or services based further customer feedback. However, the generation of customer feedback is mainly qualitative and unstructured in the beginning and therefore needs to be structured into a systematic interaction with customers with the growth of the firm. Customer-oriented marketing capabilities are fairly consistent between the three age groups analyzed and is often rooted in a strong customer-orientation in organizational culture.

The development of marketing capabilities in young firms is at the moment rather unstructured. The author suggests for young firms to focus on one brand, preferably the product- or service-brand first and define a structured process to develop distinctive brand attributes such as brand name and logo and create a testing process to identify the best-performing attributes for their functional brand. The strategic elements of the brand including brand personality, benefits and brand positioning should be developed alongside the functional brand to ensure that the values of the founding team and the vision are leveraged by all team members, since a consistent brand has an impact on the success of the business. In regards to customer-oriented capabilities, founders should invest substantial time in the identification of customer needs and strategic management of customer relations. It is the strongest component of customer-oriented marketing capabilities. It is recommended to base the findings on a structured and research-based approach, ensuring that the customers and their needs can be segmented based on these findings. To ensure that customer-orientation is included in product development, founders should ensure that the products and services are customized based on the needs of the customers and that the product or service is unique compared to competitive offers. The dissemination of the customer knowledge throughout the organization is therefore one of the key roles of marketing.

Based on the findings of the impact of marketing capabilities on business performance, it is suggested to investors to look for both customer- and brand-orientation in the firm that they are investing in. It is important to support founders in analyzing both, the "outside in" and the "inside out" view on their firm. It is important to investigate in the findings of the founders, the customer feedback on their product or service. This feedback has to be collected systematically and not on the founders assumptions. As an investor, it is recommended to ask founders to provide their findings and review those findings before investing in the firm. In terms of branding, firms should have developed a clear understanding of their brand, its differentiation and how they plan marketing activities to promote brand awareness. Advertising activities can be quite intense in terms of financial resources. Therefore, it is recommendable to fully assess their potential and how they support the brand in generating awareness, as well as understanding how it addresses the selected target audience. Marketing capabilities are highly important. If the founders do not have experience in marketing, training and consultancy can be provided on the acquisition of customer-oriented and marketing-oriented marketing capabilities.

This study provides suggestions to further advance the RBT theoretically, by clarifying classifications of customer- and brand- oriented capabilities. It is suggested, to consider the direction of view when defining marketing capabilities and consider the distinctive features of the two orientations in the research. Based on the findings on the development of capabilities and business performance in young firms, it is also suggested to take into consideration firm age when conducting analyses of the impact of capabilities on business performance and consider the changes in the importance of different factors of business performance over time.

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