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Broadening the scope of the resource-based view in marketing: The contingency role of institutional factors

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ABSTRACT

Drawing on the resource-based view (RBV) of the firm and institutional theory, the authors propose and test an integrated model in an industrial marketing context that expands the boundaries of the RBV to incorporate institutional factors pertaining to societal and political issues. The rationale for taking such an integrated approach stems from the knowledge that firm performance can be explained better by incorporating not only the *inability* of managers to take particular actions but also their *reluctance* or *unwillingness* to pursue those behaviors. The authors develop an integrated model that tests (1) the direct effect of marketing institutional factors on the development of marketing RBV factors and (2) the moderating role of marketing institutional factors on the performance effect of marketing RBV factors. The empirical results indicate general support for the hypotheses, and this research provides several implications for broadening the scope of the RBV in marketing by underscoring how fit between marketing resources and the context in which those resources are deployed affects firm performance.

1. Introduction

Despite the countless benefits that the resource-based view (RBV) of the firm has provided to marketing theory and practice, one of its shortcomings is that it does not consider how institutional factors such as tradition, pressure, norms, habits, legitimacy, and the demands of the societal environment affect firm performance. Firm behavior, and ultimately firm performance, is the result of not only of internally developed marketing resources and capabilities, but also of mimicking (modeling), legitimizing, and conforming to normative standards and pressures. For example, some firms may reject the adoption and implementation of innovative process technologies that increase positional firm heterogeneity because the value of such variance-seeking resources clashes with the firm's culture, such as when top management hesitates to embrace state-of-the-art technology that requires new learning. Thus, the RBV requires an expansion in order to incorporate such institutional factors.

Homburg, Workman and Krohmer, (1999) explicitly call for more research in marketing that uses "institutional theory to a larger extent than it has been used before. (12)" As Arndt (1981) argues, the institutional approach to marketing offers significant benefits because it underscores the social and political relationships and interactions that include the exchange and dominance of resources, attainment of support, and achievement of legitimacy. In particular, an integrated approach to the RBV and institutional theory provides a more comprehensive explanation of firm performance because it incorporates not only the *inability* of managers to take particular actions but also their *reluctance* or *unwillingness* to do so. Furthermore, according to Oliver (1997), institutional theory underscores the importance of normative rational choices, whereas the RBV emphasizes economic rational choice. That is, institutional theory and the RBV diverge on the motivation behind rational choices, whether normative or economic. In combination, they suggest that firms engage in marketing behavior to improve not only firm effectiveness and efficiency by enhancing scarce resource *availability,* but also firm legitimacy and authority by enhancing resource *acceptability*. Homburg et al. (1999) also show that to account for marketing's influence in the firm, researchers must address not only traditional contingency factors, but also institutional determinants, such as CEO functional background and the country in which the firm operates. More recently, Grewal and Dharwadkar (2002) state, "recent advances in organizational theory suggest that organizations strive for both *economic fitness*, which emphasizes the competition for *scarce resources* and underscores the importance of the task environment, and *social fitness*, which stresses the pursuit of *legitimacy* in the eyes of important societal stakeholders and accentuates the significance of the *institutional environment* (82, italics added)."

Although studies relating to the RBV (e.g., Bharadwaj, Varadarajan and Fahy, 1993; Day & Wensley, 1988; Hunt & Morgan, 1995; Moorman

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& Slotegraaf, 1999) and, to a lesser degree, institutional theory (Grewal & Dharwadkar, 2002; Homburg et al., 1999) already exist in the marketing literature, we observe a notable two-part gap that our study strives to address. First, scant, if any, research exists regarding the influence of institutional factors on the development of marketing resources. Second, little is known about how institutional factors moderate the marketing resources–firm performance relationship. Vorhies and Morgan (2003) find that fit between marketing capabilities (i.e., architectural and specialized) and strategy type (e.g., prospectors, defenders, and analyzers) improve marketing performance (i.e., effectiveness and efficiency). Thus, though scholars have long alluded to the need to study the effect of institutional factors on resource attainment and deployment, and eventually how such resources influence firm performance (Homburg et al., 1999; Oliver, 1997), the two theories that support these research streams have remained virtually separate.

Against the backdrop of marketing literature, which has failed to bring the RBV and institutional theory together within a single model, we develop an integrative model that explains both the direct effect of institutional factors on the development of marketing resources and their moderating role in the relationship between marketing resources and firm performance. Therefore, we begin by providing an overview of institutional theory and the RBV. We then discuss our conceptual framework, which integrates the two theoretical domains, and derive our hypotheses. To test our hypotheses, we use data collected from multiple respondents, including CEOs and marketing managers from industrial firms. We conclude with some theoretical and managerial implications, limitations, and future research directions.

2. Theoretical background: institutional theory and RBV

Institutional theory and the RBV and both offer diagnostic explanations of marketing's role in firm performance but include noteworthy differences. In Table 1, we compare the two theoretical domains.

2.1. Institutional theory

The fundamental premise of institutional theory is that organizational behaviors result from and are shaped by social influences and pressures to conform. Therefore, the institutional context surrounding firms determines their strategic decisions. Rules, norms, traditions, and beliefs pertaining to a specific economic activity define and enforce socially acceptable economic behavior. Moreover, firm homogeneity or isomorphism accelerates through the diffusion and adoption of best practices and benchmarking (DiMaggio & Powell, 1983). Therefore, unlike the RBV, institutional theory incorporates the broader social context (e.g., firm culture, political climate) that surrounds resource selection decisions because the context explains firm performance. For example, organizational culture represents an institutional factor because it provides the context in which resource adoption and deployment occurs.

Table 1
Comparison of resource-based view with institutional theory.

Critical characteristics	Resource-based view	Institutional theory
Decision making objective	Economic rationality	Normative rationality
Decision making process	Optimization/maximization of resource choice	Justification/legitimization of resource choice
Source of competitive advantage	Increasing firm heterogeneity via variance-seeking resources and capabilities	Increasing legitimacy and authority through compliance and conformity to demands, standards, practices, norms, and culture within and beyond firm boundaries
Isolating mechanism	Strategic isolating mechanism via inability to procure and access resources	Institutional isolating mechanism via reluctance and unwillingness to accept resources
Resource mobility barrier	Availability of resource	Acceptability of resource
Reason for low resource mobility	Market imperfection reflected by valuable, rare, inimitable, tacit, and non-substitutable resources	Absence and lack of political, cultural, and top management support, as well as fit with resources
Role of firm history	Can add value through path dependency and time compression diseconomies	Can constrain added value by creating inertia, core rigidity, and habits that impede change

Notes: Partially adapted from Oliver (1997).

Lawrence (1999) asserts that "institutional strategy demands the ability to articulate, sponsor and defend particular practices and organizational forms as legitimate or desirable, rather than the ability to enact already legitimated practices or leverage existing social rules (163)." In other words, the central thesis regarding institutional strategy is about preserving, constructing, or transforming institutional standards and rules to build a strategically advantageous context in which firms can perform (Lawrence, 1999). More recently, Grewal and Dharwadkar (2002) state that "[r]ecent advances in organizational theory suggest that organizations strive for both *economic fitness*, which emphasizes the competition for *scarce resources* and underscores the importance of the task environment, and *social fitness*, which stresses the pursuit of *legitimacy* in the eyes of important societal stakeholders and accentuates the significance of the *institutional environment* (82, italics added)." Arndt (1981) argues that the institutional approach to marketing underscores the social and political relationships and interactions that include the exchange and dominance of resources, attainment of support, and achievement of legitimacy. As Oliver (1997) points out, managers' behaviors that manifest arguments such as "we've always done it this way," "everybody does it this way," or "that's just the way things are done around here" reflect institutionalized influences that may contradict rational economic behavior that strives to maximize value. Even if it produces suboptimal performance, firms may engage in such behavior because it is consistent with a normative rational behavior explanation.

Standardization offers a typical example of a widely known institutional strategy that relates to coercive and mimetic isomorphism (DiMaggio & Powell, 1983). Isomorphism puts pressure on others to accept and follow institutional standards. In the high-tech video industry, for example, the debate over VHS versus Beta format led eventually to the standardization of the former. Perhaps the most popular standardization example involves the leadership position Microsoft has been able to build and retain by establishing its standard in the software industry. In short, institutional theory suggests firms retain their market position by investing in behaviors that stabilize existing forms, structures, and practices through institutionalization, while simultaneously working toward the deinstitutionalization of competitive standards to enhance or regain their superior market position.

2.2. Resource-based view

Although numerous suggestions have been put forth regarding ways to classify resources (Hall, 1992, 1993; Miller & Shamsie, 1996), for the purpose of this paper, we employ a broad definition that is consistent with Barney (1991) and Wernerfelt (1984). According to RBV theory, "firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney, 1991, 101)." In this respect, resources are the building blocks and the key to competitive advantage. The RBV underscores the importance of accumulating, reconfiguring, and deploying valuable, rare, inimitable, and non-substitutable knowledge, skills, and assets (Teece, Pisano, & Shuen, 1997). These resources are often tacit and idiosyncratic, such that they are embedded in the social fabric of the firm. They are difficult to transpose to different contexts because of their “stickiness” or imperfect mobility. They reveal path dependencies and causal ambiguity, which makes them unattractive candidates for imitation (Reed & DeFillippi, 1990). Moreover, some resources are interwoven with other complementary resources, which makes unraveling extremely difficult. All of the aforementioned characteristics of resources prevent and deter transferability across firms.

The RBV also supports the Schumpeterian view of economics by explicitly positing the significance of reinvestment and innovation (Bharadwaj et al., 1993; Day & Wensley, 1988). Resources need to be reinvented, transformed, and leveraged with other complementary resources to prolong their effectiveness, prevent depletion, and force competitors into a “catch up” mode. Therefore, the RBV is grounded on the premise that differences in valuable, rare, inimitable, and non-substitutable resources contribute to positional firm heterogeneity in the marketplace, which in turn, leads to superior firm performance (Day & Wensley, 1988; Hunt & Morgan, 1995). Overall, researchers applying the RBV appear to be committed to the central thesis that resources and capabilities must be reinvented and learned continuously (Bharadwaj et al., 1993; Day & Wensley, 1988); provide a source of positional advantage (Day & Wensley, 1988; Hunt & Morgan, 1995); require the complements of other resources to strengthen their value (Moorman & Slotegraaf, 1999); achieve fit with strategy type (e.g., prospectors, defenders, and analyzers) to realize high marketing performance (Vorhies & Morgan, 2003); and should be deployed effectively through building capabilities (Slotegraaf, Moorman, & Inman, 2003). However, these studies lack any discussion of the social or political context in which firms put resources into effect. We address this void by inviting institutional theory into the RBV framework.

2.3. Conceptual framework and constructs

We depict our conceptual framework in Fig. 1, in which we theorize institutional and RBV factors at both the individual and intrafirm levels.

2.4. Constructs related to institutional theory

2.4.1. Individual level

At the individual level, a decision maker's resource choice depends on normative rationality, which means that decisions are usually habitual, unreflective, and, more important, embedded in norms and traditions. The historical and normative context of the firm constrains decisions, such that decision makers may use less economic rationality as long as their decisions fit with the social context of the firm. For example, CEOs with a marketing background generally value, behave, and think in ways consistent with the norms, traditions, and pressures preferred by various stakeholders such as customers, employees, and suppliers. Therefore, CEOs' functional backgrounds should influence how they conform to specific rules, norms, and traditions. In turn, we posit that CEO functional background (i.e., a marketing background or not) provides an individual-level institutional factor. This claim is consistent with the consensus in institutional theory literature (Boeker, 1989; Homburg et al., 1999; Palmer, Devereaux Jennings, & Zhou, 1993), as well as with Homburg et al.'s (1999) finding that marketing's influence is greater in firms whose CEOs have a marketing background. Research also indicates that CEOs with output experience in areas such as marketing possess and emphasize strategic directions and tend to make decisions that confirm and validate their own strengths (Child, 1972; Hambrick & Mason, 1984). That is, CEOs' functional backgrounds strongly influence the culture, norms, and vision of the firm (e.g., Hambrick & Mason, 1984), such that those with an output background tend to focus more on customer relationships, market scanning, growth, creativity, and adaptability, and therefore, cultivate a dynamic culture that supports entrepreneurial activities. In contrast, those with a throughput background, such as finance, accounting, or law, foster a culture that focuses on efficiency, order, and predictability (e.g., Beal & Yasai-Ardekani, 2000; Govindarajan, 1989).

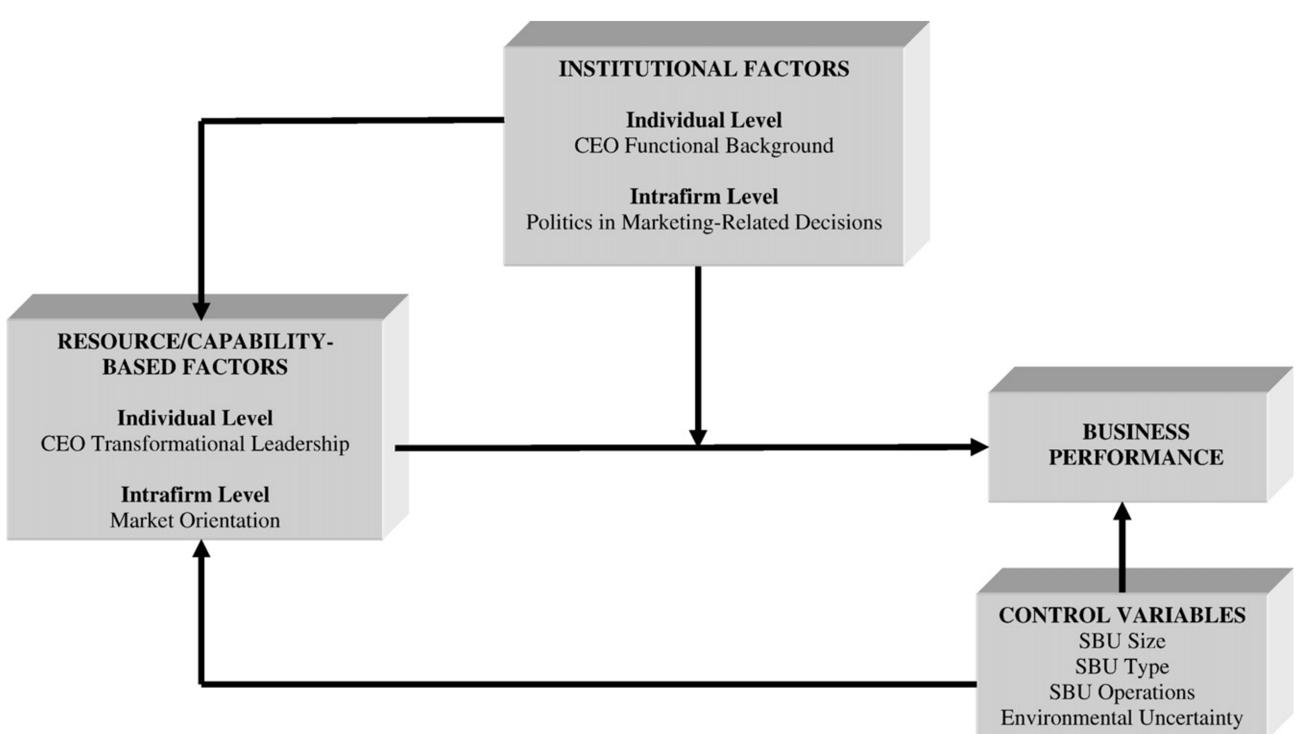

Fig. 1. Conceptual model.

2.4.2. Intrafirm level

At the intrafirm level, institutional isolating mechanisms determine the level of firms' resource heterogeneity, and therefore, their competitive advantage. The social context for resource decisions may have a strong impact on the likelihood of the optimal use and procurement of such resources, mainly as a result of institutional isolating mechanisms, such that decision makers become unwilling to accept, obtain, and deploy certain resources.

Institutional isolating mechanisms refer to the "barriers to imitation which result from a firm's reluctance to imitate or acquire resources that are incompatible with the firm's cultural or political context (Oliver, 1997, 704)." They thus deter the adoption and imitation of valuable resources not because of inaccessibility, but because of incompatibility with existing political environments, cultural norms, or top management values. Consequently, when resources violate or are incompatible with the firm's cultural or political norms, the firm is less likely to accept or seek those resources. Furthermore, unlike strategic isolating mechanisms that create mobility barriers by establishing path dependencies and causal ambiguities that prevent imitation and duplication (Dierickx & Cool, 1989; Reed & DeFillippi, 1990), institutional isolating mechanisms capture a competitive advantage by mobilizing and nurturing the social context, such as cultures and political systems, in which the resources will be used (Ginsberg, 1994; Oliver, 1997). Therefore, we claim that politics in marketing decision making (PMDM) represents an institutional factor at the intrafirm level. For this study, we define PMDM as the inclination of functional managers to preserve and expand their influence and resources by engaging in marketing decision making that is based on the power of individual employees or functional areas. In line with this thinking, Piercy (1990) claims that "the process of marketing decision-making is … susceptible to analysis in terms of the power and politics of the organization (30)." Therefore, PMDM may make firms unwilling or reluctant to accept scarce and valuable resources that can create firm heterogeneity.

2.5. Constructs related to RBV

2.5.1. Individual level

Transformational leadership, or a leadership style that motivates and empowers employees to transcend their own interests in order to support the interests of the organization (MacKenzie et al., 2001), attempts to align employee goals with those of the organization by underscoring the importance of relationship-building (Howell & Avolio, 1993). In other words, transformational leadership strives to achieve employee–organization identification by promoting the sharing and acceptance of a common purpose and vision.

The existing literature describes transformational leadership as a higher-order construct comprised of four subdimensions: inspirational motivation, intellectual stimulation, individualized consideration, and charisma (Bass & Avolio, 1994). Inspirational motivation captures the construction and instillation of a vision of the future; intellectual stimulation underscores the tendency to encourage innovative and creative problem-solving; individualized consideration refers to listening and coaching each person as opposed to treating people as members of a group; and charisma captures the inclination to instill a strong sense of purpose and shared mission (MacKenzie et al., 2001).

Taking these into consideration, we posit that CEO transformational leadership is a managerial capability that develops and nurtures other capabilities and resources (Lado, Boyd, & Wright, 1992). A defining element of any capability or resource is its degree of tacitness, such that the greater the tacitness, the more difficult it is to imitate and substitute the capability and resource. Capability as a source of sustainable competitive advantage will be diminished to the extent that it is transparent, and thus will be susceptible to being copied based on codified knowledge. According to Hunt and Morgan, (1995), tacit resources are those that "encompass skills that are noncodifiable and must be learnt by doing and thus cannot be bought (12)." In applying this definition to transformational leadership, we argue that it entails time compression diseconomies because it takes considerable time to acquire and develop. Such leadership also takes place through social interactions and relationship-building with employees, which strengthen its noncodifiable and sticky characteristics (Nahapiet & Ghoshal, 1998). Finally, possessing charisma and positively influencing others represent rare abilities that are difficult to develop through training or education. Therefore, CEO transformational leadership is a tacit managerial capability.

2.5.2. Intrafirm level

Market orientation offers an intrafirm-level resource, as Hunt and Morgan (1995) contend. Namely, market orientation provides a comparative advantage resource that creates a competitive advantage in the marketplace through positional advantage. In addition, Hunt and Morgan (1995) consider market orientation to be an intangible entity that enables firms to produce products and services that satisfy the needs of certain customer segments better than competitors can. Furthermore, market orientation remains rare, because if it were not, it would not lead to superior firm performance (Hunt & Morgan, 1995; Jaworski & Kohli, 1993; Narver & Slater, 1990).

3. Hypotheses development

3.1. Main effect hypotheses

3.1.1. Influence of CEO functional background on transformational leadership

We hypothesize that CEOs with a marketing background will foster the development of transformational leadership more than those with a non-marketing background. The theoretical rationale we use to support this hypothesis rests on the notion of internal market orientation, which can be defined as a parallel concept to the well-known (external) market orientation (Lings & Greenley, 2005). That is, internal market orientation underscores exchanges between the firm and its employees by viewing employees as customers and valuable assets. Moreover, findings from Lings and Greenley (2005), which are consistent with those of Ahmed and Rafiq (2003), indicate that internal market orientation contributes to more positive employee attitudes, employee compliance, and employee retention.

Therefore, we believe that the education, training, and institutionalization of marketing CEOs reinforce the importance of relationship-building and social interactions with employees. This suggests that a marketing background enables these CEOs to harness the significance of human resources, which creates a culture wherein human resources (customers and employees) are viewed as assets rather than as expenses or liabilities (Berry, 1981; Rafiq & Ahmed, 1993). Transformational leadership, as described previously, encompasses dimensions such as individual consideration, inspirational motivation, intellectual stimulation, and charisma, which collectively are oriented toward employees (Bass & Avolio, 1994). That is, transformational leadership encourages employees to engage in work activities using internal rather than external motivation (MacKenzie et al., 2001; Podsakoff, MacKenzie, Moorman, & Fetter, 1990). The strong inclination of CEOs with a marketing background to underscore the importance of people, and the resulting relationship orientation and social capital, suggest that such CEOs promote and encourage the development of transformational leadership more than do those with a non-marketing background.

H1. Marketing CEOs, compared with those with a non-marketing background, relate more positively to transformational leadership.

3.1.2. Influence of CEO functional background on market orientation

The functional background of top management also provides a strong institutional factor that drives and dictates organizational resource allocation and priority setting (Boeker, 1989; Palmer et al., 1993). Marketing scholars share the common belief that top management's interests and focus shape the firm's market orientation (Day, 1994; Kirca, Jayachandran, & Bearden, 2005; Kohli & Jaworski, 1990). Day (1994) claims that "[f]or an organization to enhance its market orientation and thus to develop superior market-sensing and customer-linking capabilities, top management must make an unequivocal commitment to putting customers first (48)." Webster (1988) similarly posits that "CEOs must give clear signals and establish clear values and beliefs about serving the customer (37)."

Because CEOs with a marketing background are exposed to similar training, education, and experience, they emerge with similar mental models that prioritize satisfying customers' expressed and latent needs (Walsh, 1995). In other words, marketing CEOs tend to value customers as a result of the diffused and well-accepted norm in marketing that customer value and satisfaction provide the basis for the marketing concept. In line with our argument, Homburg et al. (1999) find that the influence of marketing increases in firms run by CEOs with a marketing background.

H2. Marketing CEOs, compared with those with a non-marketing background, relate more positively to market orientation.

3.1.3. Influence of PMDM on transformational leadership

We posit that PMDM and transformational leadership are incompatible because the focus and goal that each underscores are at odds with one another. Whereas PMDM, with its parochial interests, seeks or generates piecemeal thinking that creates fragmentation and uses power rather than collaboration and coordination for decision making, transformational leadership focuses on a collective sense of mission, a strong sense of purpose, and a compelling vision of the future, and thereby strives for integration and collaboration (Bass & Avolio, 1994). As a result, we expect PMDM to have a negative influence on the development of transformational leadership.

Most of the work on the antecedents of transformational leadership has focused on micro-level drivers such as attitudes, cognitions, and personality variables. In fact, Bass (1998) claims, "When it comes to predicting transformational leadership. .. there is no shortage of personality expectations (122)." Thus, the need to include more macro rather than micro antecedents of transformational leadership is warranted. For example, Shamir and Howell (1999) put forth that macro-contextual variables, such as culture, can be predictors of transformational leadership.

Further, drawing on the leadership literature, Shamir and Howell (1999), citing the three dominant modes of governance suggested by Ouchi (1980), advance that transformational leadership is likely to be used most often in a clan type of organizational governance mode rather than market or bureaucratic modes. They further argue that an adaptive culture (Kotter & Heskett 1992), a culture characterized by common and shared values and ways of behaving that emphasize candid communication, integrity, teamwork, and enthusiasm, is more conducive to transformational leadership than a non-adaptive culture.

In light of the above literature, PMDM seems to create a culture that is neither clan-oriented nor adaptive and will work against a clan or adaptive culture, thus hampering transformational leadership. Consequently, we propose that PMDM will lead to less transformational leadership.

In summary, in an institutionalized PMDM environment, a CEO who tries to promote the acceptance and development of a collective vision and goal between the leader and employees, a situation which represents the hallmark characteristics that define transformational leadership, will experience significant difficulty.

H3. Politics in marketing decision making relate negatively to transformational leadership.

3.1.4. Influence of PMDM on market orientation

Political decision making restricts and distorts information flow (Pettigrew, 1973) because the exploitation of power to gain advantage requires manipulation, control, and limited access to information (Piercy, 1989). Because valuable information never gets disseminated or shared across functional areas, communication deteriorates and interfunctional coordination suffers, which results in lower market orientation. Kohli and Jaworski (1990) define market orientation as the organization-wide generation, dissemination, and responsiveness to market intelligence, such that the firm's central role is as an information processor and interpreter (Daft & Weick, 1984; Tushman & Nadler, 1978). Because PMDM impedes a firm's performance as an information processor, it also adversely affects the development of market orientation. Further, Kohli and Jaworski (1990) put forth that interdepartmental dynamics (connectedness, conflict, and concern for the ideas of other departments) is a determinant of market orientation. We expect PMDM to impede market orientation because PMDM will adversely affect such dynamics. Lastly, Kohli and Jaworski (1990) imply that the acceptance of political behavior will hamper market orientation as it creates greater conflict; however, the direct link between political behavior and market orientation was not tested.

Also, according to resource dependency theory (Pfeffer & Salancik, 1978), organizations represent coalitions of interests that suffer conflict and politics among functional areas because of the uneven distribution of resources across disciplines. The imbalance and lack of resource exchange within organizations leads to conflict among functional areas and causes members to exercise their power in order to retain and coerce resources to their advantage. In time, coordination and collaboration among departments fail, which limits the development of market orientation. Kirca et al. (2005) also suggest that interdepartmental dynamics, such as conflict and connectedness, influence market orientation, and Ruekert and Walker (1987) posit that interdepartmental conflict impedes market intelligence dissemination and communication, which are components integral to the successful development of market orientation.

H4. Politics in marketing decision making relates negatively to market orientation.

4. Interaction hypotheses

4.1. Moderating effect of CEO functional background on the deployment of transformational leadership

According to situational strength theory (Mischel, 1977), the nature of situations (i.e., strong vs. weak) influences the degree to which individual characteristics affect strategic decision making. Mischel (1977), using the example of a red traffic light, defines a strong situation as one in which most people construe the situation similarly, draw similar conclusions as to appropriate responses, are motivated, and are able to respond. Most people interpret a red stop light to mean stop and act accordingly, regardless of their idiosyncratic individual differences. Conversely, a weak situation is defined as one in which ambiguity exists in the interpretation of the situation and the appropriateness of the various responses. A yellow light is a good example of a weak situation, as individuals respond differently depending on individual characteristics, such as attitude toward risk. Consequently, we can infer that in strong situations where uniform encoding of situations exist, consensus regarding appropriate response is present, motivation to reply exists, and capability to respond is present, and therefore, individual differences in characteristics and profiles are expected to exert little influence on strategic decision making. However, in weak situations, individual characteristics will play a much greater role than in strong situations.

We posit that CEOs with a marketing background are deeply rooted and institutionalized in certain ways (e.g., customer orientation, customer satisfaction, internal marketing to employees, etc.) that create a strong situation (Homburg et al., 1999). That is, CEOs with a marketing background have learned the significance of internal marketing, which advances that harmony and satisfaction among employees is a critical influence on customer satisfaction, loyalty, and retention. This diminishes the impact of transformational leadership on firm performance. Consequently, this strong situation is expected to weaken the positive effect of transformational leadership on firm performance.

H5. The CEO's functional background negatively moderates the effect of transformational leadership on firm performance, such that its positive effect on firm performance is weaker for firms with marketing CEOs than those with non-marketing CEOs.

4.2. Moderating effect of CEO functional background on the deployment of market orientation

To convert market orientation into enhanced firm performance, firms must understand customers' explicit and latent needs and provide more value than their competitors. Because CEOs with marketing backgrounds should be better at understanding customers, competitors, and the entire value network of channel relations, their presence may strengthen the effect of market orientation on firm performance (Day, 1994). Accordingly, marketing CEOs, compared to those with a non-marketing background, are better equipped to carry out the capabilities associated with a market-driven firm. These CEOs, whether through explicit knowledge such as their formal education or tacit knowledge accumulated from experience on the job, have a more thorough understanding of customers (Homburg et al., 1999), and therefore, exert more influence over marketing-related issues (e.g., advertising messages, customer satisfaction measurement, design of customer service and support). Because marketing CEOs recognize market orientation or at least the idea of a marketing concept early in their careers and work on tasks either directly or indirectly affiliated with the notion of market orientation, we expect them to achieve greater firm performance for a given level of market orientation compared to those with a non-marketing background.

H6. The CEO's functional background positively moderates the effect of market orientation on firm performance, such that its positive effect on firm performance is greater for firms with marketing CEOs than those with non-marketing CEOs.

The prevailing view is a mixed verdict regarding the effect of politics on firm performance in that the performance effect of politics can be both positive and negative. Under dynamic and turbulent environmental conditions, political decision making has shown itself to be an effective means of enhancing performance (Drory, 1993; Pfeffer, 1981). On the other hand, Eisenhardt and Bourgeois (1988) have argued that politics distorts, manipulates, and restricts information dissemination, flow, and exchange, and inefficiently exploits time and resources. However, when politics is the context in which decisions are made (as a moderator), as it is in the subsequent interaction hypotheses, we posit that politics is inherently dysfunctional and attenuates the positive effect of resources on performance.

4.3. Moderating effect of PMDM on the deployment of transformational leadership

To implement transformational leadership successfully, the firm must establish an environment in which employees can trust the leader and operate in a culture with shared values, norms, and beliefs. The collective goals and mission must be readily accepted and acted upon. Furthermore, employees from different functional areas must take collaborative positions, such that all share a common mental road map of what the leader desires and what the organization is pursuing. However, with high PMDM, harmony, trust, and cohesion among functional areas dissipate, and decision making involves the exercise of power. In this climate, self-interest seeking increases; this prevents different functional areas from sharing the common vision, values, norms, and beliefs of the leader. Consequently, the environment that enables transformational leadership to foster firm performance does not exist. In short, when PMDM increases, the effective deployment of transformational leadership to impact firm performance positively diminishes because politics interferes with consensus making and creates a fragmented organizational culture.

H7. Political marketing decision making negatively moderates the effect of transformational leadership on firm performance, such that its positive effect weakens as PMDM increases.

4.4. Moderating effect of PMDM on the deployment of market orientation

When marketing decision making depends on politics, the positive effect of market orientation on firm performance should be attenuated. Because PMDM uses an internal orientation, it ignores and neglects the dynamics of the environment and market, and tends to lose touch with market-sensing and customer-linking capabilities (Day, 1994). The successful deployment of a market orientation rests on the effective functioning of interfunctional coordination, which in turn, depends on the exchange, dissemination, and use of valuable market information. Consequently, the performance effect of market orientation should suffer when PMDM increases. Furthermore, because the focus of attention shifts from the environment, primarily customers and competitors (external), to the politics of the organization (internal), the firm loses contact with the voice of the customer. In other words, PMDM diverts attention and resources away from customers and competitors, and toward conflict, power, and the manipulation of market intelligence. Consequently, higher PMDM weakens the positive influence of market orientation on firm performance.

H8. Political marketing decision making negatively moderates the effect of market orientation on firm performance, such that its positive effect weakens as PMDM increases.

5. Methodology

5.1. Sample and data collection

We collected the data for the constructs employed in this study as part of a larger project conducted in Australia. To ensure multiple respondents, we targeted CEOs and/or senior executives and marketing managers of large Australian strategic business units (SBU) in the industrial field, as these individuals are the most knowledgeable about the context of this study. We obtained a list of the names and addresses of the CEOs/senior executives and marketing managers of 1000 large and mid-sized manufacturing firms from a private databank company. The list includes firms from a variety of subgroups in the manufacturing sector, and thereby makes our findings more generally applicable. We conducted a pretest for the draft questionnaire using 20 CEOs and marketing managers, whom we eliminated from the original list for data collection purposes. Consequently, the modified list consists of 980 firms.

Consistent with Dillman's (1978) total design method, we first prepared and mailed a packet that contained a cover letter addressed personally to the CEOs and marketing managers, a questionnaire, and a postage-paid return envelope. Four weeks after the first mailing, we sent a follow-up letter and an additional copy of the questionnaire to non-respondents. From these efforts, we obtained 260 usable, matched questionnaires for a response rate of 26.5%.

To ensure key informant quality, we included a single-item question to determine whether the respondents are knowledgeable about the issues under study (1 = very limited knowledge; 7 = very substantial knowledge) (e.g., Atuahene-Gima, 2005). The means for CEOs and marketing managers are 6.41 and 6.75, respectively, which indicate high key informant quality.

We also test for the likelihood of non-response bias by comparing the demographic and financial characteristics (e.g., firm size, total sales) of the firms that participated in our study with the traits of those that did not. The comparisons on each variable (i.e., *t*-tests) reveal no significant differences, which supports the assumption that the respondents do not differ from the non-respondents.

The average firm size is 676 full-time employees, and the firms operate in a variety of sectors, including automotive, construction materials, and chemicals. Of the 260 firms, 48% are freestanding and 68% are business-to-business type firms. Finally, 32% of CEOs have a background in marketing.

6. Measures

We use widely accepted scales to measure the constructs of this study. In addition, we use a multiple respondent design, such that CEOs respond to the questions about market orientation, business performance, environmental dynamism, and SBU size, whereas the marketing managers respond to the questions pertaining to PMDM and transformational leadership. This method enables us to minimize common method bias in our analysis. We provide lists of the measures in Tables 2 and 3.

6.1. Resource-based variables

We capture *market orientation* as customer orientation, competitor orientation, and interfunctional coordination, as suggested by Narver and Slater (1990), and measure customer orientation (six items), competitor orientation (four items), and interfunctional coordination (five items) using five-point Likert scales (1 = strongly disagree, 5 = strongly agree). In turn, we operationalize market orientation as a higher-order construct comprised of customer orientation, competitor orientation, and interfunctional coordination.

Transformational leadership relies on the multifactor leadership questionnaire form 5X-short, developed by Bass and Avolio (2000). Following previous research, we operationalize transformational leadership as a higher-order factor of four first-order constructs: inspirational motivation (three items), intellectual stimulation (three items), individualized consideration (three items), and idealized influence (six items). All scales use a Likert format (1 = not at all, 5 = frequently, if not always).

6.2. Institutional variables

To measure *CEO functional background*, we use a dummy variable (1 = marketing, 0 = other). The newly developed scale to measure the construct of PMDM relies on research by Homburg et al. (1999) and Drory (1993). We provided respondents with a brief explanation of politics in decision making, as follows:

> Company decisions on issues which may be important to you may be influenced by functional managers' (e.g., finance manager, accounting manager, operations manager, etc., including yourself) considerations regarding technical standards & procedures, and professionalism. They may also be influenced by functional managers' political considerations such as gaining or protecting power resources, and coalition building (Drory, 1993, 70).

On the basis of this information, managers responded to 10 items on a five-point scale (1 = mostly influenced by functional managers' technical and professional considerations, 5 = mostly influenced by functional managers' political power). In the pretest, we asked 20 CEOs to evaluate the existing items and indicate whether they could identify other types of marketing decisions that might occur in their organizations. These respondents agreed that the list of items was exhaustive enough to offer broad coverage.

The measure of *business performance* consists of an exhaustive list of eight indicators, derived from Li and Atuahene-Gimas (2001) work. We asked respondents to rate the performance of their firm relative to that of their principal competitors during the previous three years (1 = much worse, 5 = much better).

6.3. Control variables

We include control variables to avoid model misspecification. Specifically, we operationalize *SBU size* as a log transformation of the number of full-time employees and use dummy variables to determine *SBU type* (0 = freestanding SBU, 1 =dependent SBU) and *SBU operations* (1 = business-to-business, 2 = business-to-consumer, 3 = both). To measure *environmental uncertainty*, we use a five-item, five-point Likert scale (1 = strongly disagree, 5 = strongly agree) adapted from Jaworski and Kohli (1993). We obtained the responses to these control variables from the CEO respondents.

7. Analyses and results

7.1. Measure validation

To assess the psychometric properties (i.e., reliability and validity) of the multi-item constructs, we conducted a confirmatory factor analysis (CFA). The CFA results indicate an acceptable fit to the data ($\chi^2_{(1280)}$=2816.7, $p<.001$, goodness-of-fit index=.90; Tucker–Lewis index=.91, confirmatory fit index=.92; parsimony normed fit index=.67; root mean squared error of approximation=.07). No items needed to be deleted due to low factor loadings, high residuals, or high modification indices. Therefore, we retain all items in the CFA (Table 2).

Overall, two findings support the convergent validity of these constructs. First, all factor loadings are statistically significant (Gerbing & Anderson, 1988). Second, the average variance extracted (AVE) values are greater than .50 (Bagozzi & Yi, 1988). To test for discriminant validity, we performed a chi-square test for every pair of constructs by comparing the unconstrained model with a constrained model in which we set the correlation between the two constructs to 1 (Anderson & Gerbing, 1988). For every pair of constructs, the chi-square difference is greater than 3.84 (df=1; $p<.05$), in support of discriminant validity. In addition, we employed a more stringent test, as suggested by Fornell and Larker (1981), and found that for all pairs of constructs, the square of the intercorrelations between them is less than the AVE estimates of the respective constructs. Consequently, we find support for the discriminant validity of the constructs. In Table 3, we report the descriptive statistics (i.e., intercorrelations, means, and standard deviations) and reliability estimates.

8. Hypotheses tests

We tested our hypotheses using moderated regression techniques. Following traditional approaches, we operationalize market orientation and transformational leadership as higher-order constructs by aggregating their respective subconstructs. Because we tested interaction effects, we mean-centered transformational leadership, market orientation, and PMDM before creating their interaction terms, which minimizes the multicollinearity that can produce biased findings (Aiken & West, 1991). We measured the degree of multicollinearity using Neter, Wasserman and Kutner's (1985) variance inflation factor (VIF) criterion and found that the VIF values for the individual regression entries are less than 2.0, well below the suggested threshold of 10.

According to the findings we present in Table 4, the proposed model explains 20% of the variance in transformational leadership, 16% of the

Table 2
Measure validation.

Scales	Factor loading	*t*-value	Cronbach's alpha	Composite reliability	Average variance extracted
Market orientation					
Customer orientation			.84	.86	.51
Our business objectives are driven by customer satisfaction	.73[a]	–			
We closely monitor and assess our level of commitment in serving customers' needs	.70	10.94			
Our competitive advantage is based on understanding customers' needs	.76	11.36			
Business strategies are driven by the goal of increasing customer value	.77	11.64			
We frequently measure customer satisfaction	.70	10.78			
We pay close attention to after-sale-service	.62	9.17			
Competitor orientation			.85	.87	.63
In our organization, our salespeople share information about competitor information	.84[a]	–			
We respond rapidly to competitive actions	.80	12.80			
We regularly discuss competitors' strengths and weaknesses	.75	11.82			
Customers are targeted when we have an opportunity for competitive advantage	.79	12.41			
Interfunctional coordination			.88	.89	.61
We share resources with other business units	.80[a]	–			
Our managers understand how employees can contribute to value of customers	.72	11.53			
Our top managers from each business function regularly visit customers	.78	11.84			
Business strategies are driven by the goal of increasing customer value	.81	12.61			
Business functions are integrated to serve the target market needs	.79	11.92			
Transformational leadership					
Inspirational motivation			.81	.83	.62
Our CEO:					
Articulates a compelling vision of the future	.79[a]	–			
Item #2	.85	10.37			
Item #3	.72	8.98			
Intellectual stimulation			.75	.77	.52
Our CEO:					
Seeks differing perspectives when solving problems	.60[a]	–			
Item #2	.78	11.40			
Item #3	.78	11.81			
Individualized consideration			.83	.84	.64
Our CEO:					
Treats us as individuals rather than just as a member of a group	.77[a]	–			
Item #2	.86	11.72			
Item #3	.76	10.66			
Idealized influence			.90	.92	.65
Our CEO:					
Emphasizes the importance of having a collective sense of mission	.80[a]	–			
Item #2	.79	10.97			
Item #3	.76	10.45			
Item #4	.88	12.74			
Item #5	.81	11.88			
Item #6	.80	11.63			
Environmental uncertainty			.83	.85	.53
In our kind of business, customers' preferences change quite a bit over time	.78[a]	–			
Our customers tend to look for new product all the time	.74	8.60			
Competition in our industry is cutthroat	.70	8.03			
There are many promotion wars in our industry	.72	8.27			
One hears of a new competitive move almost every day	.68	7.02			
Politics in marketing-related decision making			.88	.90	.51
Advertising messages	.61[a]	–			
Customer satisfaction measurement	.62	8.49			
Customer satisfaction improvement programs	.55	7.64			
Expansion into new geographic markets	.78	9.98			
Distribution strategy	.79	10.12			
Choices of strategic business partners (e.g., suppliers, retailers, alliance partners)	.67	8.97			
New product development	.70	9.27			
New process technology	.71	9.32			
Design of customer service and support	.85	10.56			
Pricing	.74	9.62			

Table 2 (*continued*)

Scales	Factor loading	*t*-value	Cronbach's alpha	Composite reliability	Average variance extracted
Business performance			.92	.93	.64
Profitability	.87[a]	–			
Return on investment	.89	20.00			
Return on sales	.91	20.98			
Profit growth	.83	17.65			
Return on assets	.71	10.73			
Sales growth	.77	13.48			
Market share growth	.70	10.46			
Cash flow from market operations	.68	9.83			

Notes: Copyright protections prevent the reporting of more than five of the items used to measure the four subdimensions of transformational leadership, so this study provides one item for each dimension (Copyright ©1995 by Bernard Bass and Bruce Avolio. All rights reserved).

[a] Item was set to 1 to fix the scale.

variance in market orientation, and 47% of the variance in business performance.

In support of H1, we find that the relationship between CEOs with a marketing background and transformational leadership is positive and statistically significant (b=.25, p<.05). However, Table 4 indicates an insignificant relationship between CEO background and market orientation, so we do not find support for H2. With regard to the main effects of PMDM, we find it relates negatively and significantly to both transformational leadership (b=−.34, p<.001) and market orientation (b=−.36, p<.001), in support of H3 and H4, respectively.

For the moderation hypotheses, we find that the two-way interaction between transformational leadership and CEO background on performance is negative and statistically significant (b=−.44, p<.001); therefore, our results do not support H5. In contrast, the two-way interaction between market orientation and CEO background on performance is positive and statistically significant (b=.45, p<.001), in support of H6. Also, in support of H7, we find a negative and statistically significant two-way interaction between transformational leadership and PMDM on performance (b=−.18, p<.001). Finally, contrary to our hypothesized relationship, the results reveal that the interaction between market orientation and PMDM on performance is positive and statistically significant (b=.20, p<.001). Therefore, Hypothesis 8 is not supported.

9. Discussion

9.1. Theoretical implications

Marketing has benefited considerably from the RBV, but has made less use of institutional theory despite its rigor and practicality (Homburg et al., 1999). Although Grewal and Dharwadkar (2002) recently studied the role of the institutional environment on transactions between marketing channel dyads, marketing literature has yet to produce an empirical study that takes an integrated approach to (1) examine the influence of institutional factors at varying levels on the development of resources (also at varying levels) or (2) understand whether institutional factors at varying levels hinder or facilitate resource deployment in influencing firm performance (i.e., the moderating effect of institutional factors).

To this end, we examine the influence of institutional theory within the realm of the RBV by producing the first study to combine both theoretical domains into a single conceptual model. We employ two institutional factors (e.g., CEO functional background and PMDM) to determine whether they enhance or impede resource and capability development (e.g., transformational leadership and market orientation), as well as whether they strengthen or weaken the performance effect of those resources and capabilities. Our integrated model receives general support, though a few findings run counter to our expectations. In the remainder of this section, we discuss the theoretical implications of our supported hypotheses and attempt to provide explanations for our unexpected findings.

The key findings of this study suggest that institutional factors are deeply involved in the development and deployment of resources and capabilities. Therefore, our integrated model paints a holistic picture of the role of institutional factors in resource development and deployment, and their impact on firm performance.

9.2. Main effects

Results pertaining to the direct effect of institutional factors on resource and capability development indicate that even valuable, rare, inimitable, and non-substitutable resources and capabilities might not be accepted and developed unless they receive support or legitimacy from the top management team or are compatible with the surrounding context. In other words, even if valuable resources and capabilities are available, the firm may not adopt or nurture them if they are not approved of or accepted.

In particular, CEOs with a marketing background, compared with those with a non-marketing background, are more supportive of transformational leadership. As a result, a transformational leadership style should blossom in organizations with marketing CEOs. When an organization needs to inspire its employees to form alliances, rally behind their leader, and move forward with a consensual goal and vision, CEOs with marketing backgrounds can be helpful.

Counter to expectations, these CEOs do not increase the firm's market orientation. We turn to marketing literature for insights to explain this finding. Felton (1959) outlines four factors that may hinder the development of market orientation: lack of executive experience, managerial inability, lack of functional integration, and the prevalence of politics and power. In a similar vein, political, conflicting, and formalized behavior hampers market orientation, whereas vertical communication facilitates it (Harris & Piercy, 1999). Moreover, participative and supportive leadership bolsters market orientation (Harris & Ogbanna, 2001); as Narver et al. (1998) claim: "without appropriate

Table 3
Correlation matrix and descriptive statistics.

Variables	1	2	3	4	5	6	7	8	9
1. SBU size									
2. SBU type	.13								
3. SBU operations	−.22	−.04							
4. Environmental uncertainty	.14	−.04	.11						
5. Transformational leadership	.00	.10	.25	.02					
6. Market orientation	−.13	.10	.04	−.03	.39				
7. CEO background	−.13	−.04	.17	−.17	.16	.01			
8. Political marketing decisions	−.07	−.06	.17	.26	−.30	−.32	−.03		
9. Business performance	−.11	−.05	.10	−.37	.14	.36	.25	−.15	
Mean	2.57	.51	1.75	3.04	3.70	3.66	.32	2.52	3.55
Standard deviation	.46	.50	1.63	.77	.74	.55	.47	.86	.77

Notes: Correlations greater than .12 are significant at p<.05.

Table 4
Regression results.[a]

Controls and independent variables	Dependent variables						
	Transformational leadership		Market orientation		Business performance		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Constant	−.66	−.72	−.07	.03	4.62***	4.43	4.68***
Controls							
SBU size	.11	.07	−.28	−.34*	−.07	.05	−.11
SBU type	.21	.19	.24	.21	−.09	−.14	−.23**
SBU operations (B2B)[b]	.49	.29	.36	.22	.34	.17	.07
SBU operations (B2C)[b]	−.35	−.67	.36	.04	.06	−.07	.09
Environmental uncertainty	−.04	.06	.10	.17*	−.36***	−.36***	−.27***
Direct effects							
Transformational leadership						−.04	.16**
Market orientation						.32***	.07
CEO background (0 = non-marketing; 1= marketing)		.25*		−.02		.30***	.29***
Politics in marketing-related decision making		−.34***		−.36***		.01	−.10**
Moderation effects							
Transformational leadership × CEO background							−.44***
Market orientation × CEO background							.45***
Transformational leadership × Politics							−.18***
Market orientation × Politics							.20***
R^2	.08	.20	.04	.16	.15	.32	.47
F-model	4.32***	9.23***	1.99	6.77***	8.85***	13.33***	16.91***
ΔR^2	–	.12	–	.12	–	.17	.15
ΔF	–	19.90***	–	18.03***	–	16.26***	17.20***

[a] Unstandardized coefficients.
[b] Omitted category: SBUs with both business-to-business (B2B) and business-to-consumers (B2C) type.
* $p<.05$; ** $p<.01$; *** $p<.001$.

leadership, creating a market orientation is simply not possible (245)." Therefore, though the literature does not explicitly mention transformational leadership, it suggests that such leadership relates positively to market orientation. Because we know that transformational leadership is greater among marketing CEOs, we posit that the lack of support for the direct effect of marketing CEOs on market orientation is attributable to an indirect relationship via transformational leadership instead. In other words, transformational leadership may be a full mediator, a supposition supported by further analysis of the data. That is, we suggest that CEOs with a marketing background positively influence market orientation through their effect on transformational leadership.

Regarding the direct effect of PMDM on transformational leadership and market orientation, both aspects suffer in a political context. As we have noted, both Felton (1959) and Harris and Piercy (1999) underscore the importance of integration, communication, and the absence of power, conflict, and politics for enhancing market orientation, and our results further suggest that transformational leadership and market orientation cannot be created in a PMDM context. In addition, our findings imply that the underlying mechanisms contributing to the development of market orientation and transformational leadership share several commonalities.

9.3. Interaction effects

Whether an institutional factor functions as a positive or negative moderator depends on the fit between the resource or capability and the institutional context in which it gets used; that is, resources and capabilities gain or lose legitimacy according to their context. When resources and capabilities are incompatible with the business's cultural or political norms, they are less likely to contribute to performance.

In particular, we find that market orientation has a stronger positive effect on performance in firms with marketing CEOs. Even though CEOs with marketing backgrounds do not have a direct positive effect on market orientation, they appear to influence the market orientation–firm performance relationship by strengthening the association. As a result, marketing CEOs possess an excellent means to deploy and implement market orientation effectively, and thereby achieve improved firm performance. Our findings shed additional light on and contribute to the market orientation literature that considers the importance of senior management as one antecedent of market orientation (Jaworski & Kohli, 1993; Kohli & Jaworski, 1990; Webster, 1988). In other words, we now recognize that CEOs with a marketing background do not necessarily facilitate the development of market orientation (at least not directly), but once it has been developed, they effectively deploy this resource to generate greater firm performance.

Also, the effectiveness of CEO transformational leadership on firm performance diminishes in firms run by marketing CEOs, consistent with situational strength theory (Mischel, 1977). Through closer observation, we find that when CEOs with a marketing background also use transformational leadership, the negative effect of transformational leadership on firm performance emerges. That is, firm performance does not benefit when the CEO has a marketing background and also possesses transformational leadership, but either one alone can improve firm performance. The ideal combination, therefore, appears to be a non-marketing CEO with a transformational leadership style or a marketing CEO who uses a different leadership style. It is interesting and worthy of recognition that although there was a positive relationship between CEO's with a marketing background and transformational leadership, the moderating effect of CEO background on the transformational leadership–firm performance is negative. This adds strength to the argument that notwithstanding the claim that CEOs with a marketing background foster and encourage more transformational leadership behavior, because of the strong situation they create in the organization, the usefulness of transformational leadership on firm performance is limited and dominated by the functional background of the CEO.

Regarding the moderating effect of PMDM on the transformational leadership–firm performance relationship, we find that a political context attenuates the positive effect of transformational leadership. A PMDM context hinders not only the development of transformational leadership, but also the deployment of that leadership to affect firm performance. Therefore, even if an organization were to hire a transformational leader, unless the decision making context is free of politics, the positive impact of the CEO's transformational leadership on firm performance will be limited. However, the positive influence of transformational leadership increases when a shared decision making context supports a common vision and purpose among employees, and between leaders and employees. Specifically, we support the conventional belief that PMDM creates an atmosphere of power imbalance, conflict, mistrust, and restricted resource and information exchange, which weakens the positive effect of transformational leadership on performance.

Finally, contrary to our expectations, the positive effect of market orientation on firm performance strengthens as PMDM increases. Although this finding runs opposite to our initial prediction, we believe we can offer a plausible explanation. Marketing decision making, such as that related to new product development, distribution strategy, advertising messages, and customer satisfaction measurement, may be politically driven, which would concentrate resources, power, and information within the marketing function. That is, PMDM may have enabled those with the most necessary resources to exercise significant influence and power. In other words, as Pfeffer & Salancik (1978) claim, coalitions that provide resources that are most valued and needed by other functional areas gain more influence and control.

Although we have no direct empirical evidence to support this explanation, Piercy (1989) asserts that marketing decision making should be viewed through the lens of an "information–structure–power" framework. Consequently, market orientation may benefit from the greater power held by the marketing department, which uses it effectively to generate greater firm performance. In short, as PMDM becomes more widespread, the power of the marketing department may expand which would increase marketing's influence within the firm, and thereby bolster the positive effect of market orientation on firm performance.

9.4. Managerial implications

Our study suggests several managerial implications. First and foremost, firms should prevent PMDM if they wish to develop transformational leadership and market orientation. Also, CEOs with a marketing background should not be underestimated, because though they have limited direct influence on developing a market orientation, they do so indirectly through their transformational leadership. In fact, our study reinforces the benefits of CEOs with marketing backgrounds.

Our results also provide suggestions for firms that desire strategic change. For example, engineering- or production-oriented companies that desire more transformational leadership and market orientation might hire a CEO who possesses a marketing background. Similarly, government or bureaucratic organizations that are frequently criticized for their lack of empathy toward customers might find our results useful.

Our study paints a more complex picture when marketing CEOs try to reap performance benefits by deploying their transformational leadership and market orientation. Because these CEOs are less effective than non-marketing CEOs at converting their transformational leadership into greater firm performance, a different leadership style may be more suitable for CEOs with a marketing background. In other words, marketing CEOs perhaps should embrace transactional leadership, a style known to contrast with transformational leadership (MacKenzie et al., 2001). Transformational leadership, on the other hand, may be effective for CEOs with a non-marketing background, such as production or engineering.

Finally, our research implies that if resources and information concentrate in the marketing department and thereby enhance the department's power, it may work to the firm's advantage in terms of performance at a given level of market orientation. Thus, a powerful marketing department may not be detrimental, as long as it supports the deployment of market orientation to affect firm performance positively.

9.5. Limitations and further research

We acknowledge some limitations of this study and consider several avenues for further research. First, though our study examines the interplay between the RBV and institutional theory at multiple levels, it is limited to individual and intrafirm levels and ignores the *interfirm* level. Resources and capabilities such as interfirm relational competency (i.e., between a firm and its strategic partners) or institutional factors, such as alliances and pressures to conform to government or industry standards and norms, thus do not appear in our study. Second, our data come mainly from industrial firms, in which context institutional factors appear to affect the development and deployment of resources. However, we cannot generalize this effect with confidence to other sectors, such as services or nonprofit organizations. Third, over time, resources may affect institutional factors (e.g., Internet or other communication technologies force businesses to accept and legitimize non-face-to-face business interactions) rather than vice versa, as we hypothesize in our model. In particular, dominant resources may influence the adoption and legitimacy of certain institutional factors, but because we lack longitudinal data, we cannot discern the possibility of a reciprocal or causal relationship between these two factors.

Additional research should attempt to understand some of the conditions in which either resources or institutional factors play more prominent roles in affecting firm performance. In industries in their infancy and growth stages, for example, resources may contribute more to firm performance because the institutional factors have not developed sufficiently to influence firm behavior. Conversely, more mature and fully developed industries may not be able to achieve firm heterogeneity through resource developments alone, in which case compliance with and adoption of best practices may represent a more effective means to attaining superior firm performance. Another area that deserves attention involves the development of an optimal institutional context for the organization that can extract the most out of its resources. Doing so would avoid the potential scenario in which a firm possesses an outstanding resource but cannot exploit it to achieve success because of its incompatibility with the firm's institutional factors.

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