On explaining performance differentials
Marketing and the managerial theory of the firm

J.W. Stoelhorst*, Erik M. van Raaij
School of Technology and Management, University of Twente, PO Box 217, 7500 AE Enschede, The Netherlands

Abstract

Efforts to develop a managerially meaningful alternative to the neoclassical theory of the firm have always been an important part of theory development in marketing. This paper argues that the main explanandum of a managerial theory of the firm is performance differentials between firms. Marketing shares an interest in explaining performance differentials with strategic management and organizational economics. We show that a generic understanding of the sources of performance differentials is emerging across these three disciplines, and we incorporate this understanding in a unifying conceptual framework that is both managerially relevant and embedded in economic theory. We discuss market orientation literature in light of this framework, and present the prospects for developing it into an actionable view of how marketing can contribute to the success of the firm.

© 2002 Elsevier Inc. All rights reserved.

Keywords: Marketing theory; Marketing strategy; Competitive advantage; Strategic management; Organizational economics

1. Introduction

Much of the history of marketing thought can be seen as an attempt to increase the managerial relevance of economic theory (cf. Alderson, 1957; Anderson, 1982; Hunt and Morgan, 1995). In fact, marketing as an academic discipline started out as a branch of applied economics concerned with the process of getting agricultural commodities from the farmer to the consumer (Bartels, 1965). Its foundations were laid in the first four decades of the 20th century, with the development and subsequent integration of the three classical schools of thought in marketing: the commodity school, which was mainly interested in the nature of the goods marketed; the functional school, which focused on the functions needed to get different kinds of goods from producer to consumer; and the institutional school, which studied the nature of the organizations performing these functions. These schools, which were largely descriptive, regarded marketing as a socioeconomic process (Sheth et al., 1988). Their combined findings formed the basis of what we now call marketing.

The commodity–functional–institutional view was re-evaluated during the 1940s and 1950s. In 1948, the American Marketing Association defined marketing as ‘the performance of business activities directed toward, and incident to, the flow of goods and services from producer to consumer or user’ (Webster, 1992). The emphasis on business activities in this definition signals a shift from a descriptive theory of a macroeconomic phenomenon to a normative theory of microeconomic behaviour. While Alderson, the leading marketing theorist of the day, fully recognized marketing’s continuing kinship with economics, he also argued that ‘[t]he use of the term theory in marketing pertains to something which is less formal and more comprehensive than economic theory in its search for relevance to actual behavior’ (Alderson, 1957, p. 8). The fulfilment of the promise that echoes in this quote is long overdue. Some 25 years after Alderson’s remark, Hunt (1983) evaluated the status of marketing theory and concluded that it was not clear what a theory of marketing would look like. Hunt was especially critical of the way in which marketing addressed what he called the behaviour of sellers, or the theory of the firm. Yet, today, marketing has more to offer in terms of a managerially relevant theory of the firm than it did in the early 1980s, and we may well ask if the theory envisaged by Alderson is finally emerging.
In this paper, we explore what marketing theory has to offer in terms of building blocks for a managerial theory of the firm. Our approach will be somewhat different from past attempts to evaluate theory in marketing. We are not so much interested in assessing the status of marketing theory in itself. Rather, we see theory development in marketing as part of a wider effort to resolve the problems raised by the overly simplistic worldview of the neoclassical theory of the firm. Both strategic management and organizational economics share marketing’s interest in developing a managerially relevant alternative to neoclassical theory. We will show that, due to their common interest in increasing the practical relevance of economic theory, marketing, strategic management and organizational economic theory is beginning to overlap. In fact, this paper is premised on the idea that the development of a managerial theory of the firm is best seen as an effort that cuts across traditional disciplinary boundaries. It is our purpose to develop a framework to help marketing theorists be more specific about how their ideas on making firms more successful can contribute to those developed in strategic management and organizational economics.

We will begin our review by briefly exploring the common economic roots of marketing, strategic management and organizational economics, and by discussing the characteristics of the managerially oriented theory they are developing. We will argue that performance differentials between firms are the main explanandum of this theory, and will focus our subsequent review of each of the three disciplines on how this explanandum has been addressed. We will show how the three disciplines’ explanations of performance differentials between firms complement each other, and will argue that a general understanding of the sources of performance differentials is emerging. We propose a unifying framework that captures this understanding, we show where the main gaps in this understanding are, and we discuss how marketing theory, particularly the literature on market orientation, can help develop the framework into an actionable theory of competitive advantage.

2. Towards a managerial theory of the firm

Marketing, strategy and organizational economics have a joint heritage in the familiar neoclassical model of perfect competition, which shows how the price mechanism matches supply and demand. This model is based on the following assumptions: (1) due to decreasing returns at the margin, buyers and sellers are small in relation to the size of the market, so each is a price taker; (2) demand within product categories is homogeneous, so there is no room for product differentiation; (3) resources are perfectly divisible and mobile, so all firms have similar access to the necessary factors of production, and market entry and exit is frictionless; (4) both buyers and sellers have perfect information about the market; (5) buyers maximize their utility and sellers their profit; (6) transactions are costless. A market which conforms to these assumptions, will, in the long run, achieve an efficient allocation of scarce resources and thus maximize welfare. In this sense, the theory of perfect competition is in fact perfect. But, it is also relatively far removed from everyday reality, and implies a theory of the firm that has been described as ‘...a theory of production masquerading as a theory of the firm’ (Teece and Winter, 1984, p. 118–119). The practical implication of the neoclassical theory of the firm is that the task of management is to adjust the quantity of output to the prevailing market price in the short-run and the size of the productive operation in the long run. Obviously, this is a rather limited view of the role of management. Attempts to develop an alternative to the neoclassical theory of the firm based on a more realistic view of the role of the manager have thus always been central to theory development in managerially oriented disciplines.

To organizational economists, the main explanandum of such an alternative theory is the coordination of economic activity (Holmstrom and Tirole, 1989; Conner, 1991). Addressing this explanandum leads to such questions as ‘why do firms exist?’ and ‘why do they take on the forms (scale and scope) that they do?’ These are not trivial questions from the point of view of neoclassical economic orthodoxy, which assumes that firms are single-product firms (i.e., limited in scope) and that their output is small in relation to market demand (i.e., limited in scale). Moreover, as first pointed out by Coase (1937), the theory of perfect competition provides no explanation for the existence of firms. If the market really was ‘perfect,’ then why not coordinate all economic activity through the invisible hand of the market, instead of also using the visible hand of the managerial hierarchy?

In contrast to their economic colleagues, scholars in strategic management and marketing tend to focus on the sources of competitive advantage. When developing theories of the firm, their main explanandum is performance differentials between firms. Neoclassical orthodoxy has even less to say about this second explanandum of a theory of the firm. Because it assumes that resources are completely divisible and perfectly mobile, and that economic actors have complete information on which they act rationally, it follows that all competing firms are identical. In a perfectly competitive market, performance differentials between firms are by definition nonexistent: all firms earn just enough to recover their production costs. In reality, of course, firms do differ (cf. Nelson, 1991), and much of the theory development in disciplines like strategic management and marketing is aimed at understanding how differences between firms affect their performance.

Any theory of the firm, then, must be able to explain why firms exist and why they are different. Moreover, any managerially useful theory of the firm must be able to explain how differences between firms lead to performance differentials (cf. Slater, 1997). In fact, for a theory aimed at
managers explaining performance differentials becomes the main concern. Managers will tend to take the existence of the firm for granted, and a managerial theory of the firm should thus primarily address the role of managers in contributing to the differential success of their firms. Although managers can no doubt relate to the neoclassical notion of the firm as an input combiner, they will hardly recognize their decision-making role as being limited to determining the desired production quantity based on a given production function, let alone accept the doctrine that their firms are bound to earn ‘zero economic returns’. Managers are more likely to see their job as being about outperforming competitors and creating shareholder value (cf. Day and Fahey, 1988; Hunt and Morgan, 1995; Srivastava et al., 1998). A managerial theory of the firm will have to tell them how.

Since Hunt’s (1983) critical evaluation of the status of marketing theory, two streams of research in marketing have begun to explicitly address sources of performance differentials between firms. The first of these consists of the literature on marketing strategy (e.g., Wind and Robertson, 1983; Day, 1992; Varadarajan and Jayachandran, 1999) and competitive advantage (Day and Wensley, 1988; Dickson, 1992, 1996; Hunt, 2000; Hunt and Morgan, 1995, 1996). The second consists of the literature on market orientation (e.g., Houston, 1986; Kohli and Jaworski, 1990; Narver and Slater, 1990; Jaworski and Kohli, 1996). Both streams have developed building blocks for a managerial theory of the firm, but concerns about the lack of an integrative framework remain (Day, 1992; Slater, 1997; Varadarajan and Jayachandran, 1999). These concerns relate to both the need for a shared model among researchers within marketing (Slater, 1997; Varadarajan and Jayachandran, 1999) and the need for marketing theorists to be able to show how their research contributes to the discourse on strategy and competitive advantage across disciplines (Day, 1992; Kerin, 1992; Webster, 1992; Hunt, 2000).

It is against this backdrop that the next sections will review the building blocks for a managerial theory of the firm developed in organizational economics, strategic management and marketing. We will be especially interested in commonalities in, and complementarities between, the perspectives developed in marketing on the one hand, and strategic management and organizational economics on the other. We will evaluate the different perspectives in light of three criteria for a managerial theory of the firm (see Table 1). We make a distinction between positive and normative theory, where positive theories describe, explain and predict what actually is, and normative theories prescribe what should be (Hunt, 1976). Following from our discussion above, we see general theories of the firm as primarily positive theories that explain why firms exist, and why and how they are different. We see a managerial theory of the firm as both a positive and a normative theory. It is a positive theory insofar as it explains performance differentials between firms. We believe that a managerial theory of the firm is more valuable if its explanations of performance differentials are grounded in theories that also address the explananda of the general theory of the firm. A managerial theory of the firm is normative insofar as it offers prescriptions for managerial action. We believe that these prescriptions are more valuable when they are grounded in a positive theory of performance differentials. In the final analysis, however, it is the value of these prescriptions for the practice of management that is the true test of a managerial theory of the firm.

3. How organizational economics explains performance differentials

We can distinguish between six different theories of the firm in organizational economics (Conner, 1991; Barney and Hesterly, 1996). Two of these—transaction cost theory (Williamson, 1975, 1985) and agency theory (e.g., Jensen and Meckling, 1976; Fama, 1980)—mainly explain the coordination of economic activity. Transaction cost theory goes to the heart of the question of why managerial hierarchies exist as an alternative form of governance alongside the market, while agency theory deals with the nature of hierarchical coordination within the firm. However, neither of these theories offers explicit explanations for performance differentials between firms. As in neoclassical orthodoxy, they implicitly view the firm as an efficiency seeker (Williamson, 1991), but not much is said about the sources of differences in efficiency between firms. This is addressed in the other four theories: industrial organization theory (I/O), the Schumpeterian view, the Chicago school and the resource-based view (RBV). These four schools of thought are especially relevant because they have all had an influence, albeit varying, on theory development in both strategic management (e.g., Barney, 1997; Hoskisson et al., 1999) and marketing (e.g., Slater, 1997; Hunt, 2000). Here, we will discuss how each of the four schools explains performance differentials between firms, the theoretical notions underlying these explanations and their implications for managerial action.

3.1. Industrial organization

I/O accepts that there are performance differentials between firms and explains these on the basis of product

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Criteria for general and managerial theories of the firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>A general theory of the firm:</td>
<td>Explains why firms exist</td>
</tr>
<tr>
<td></td>
<td>Explains why and how firms are different</td>
</tr>
<tr>
<td>A managerial theory of the firm:</td>
<td>Explains performance differentials between firms</td>
</tr>
<tr>
<td></td>
<td>Is theoretically grounded in general theories of the firm</td>
</tr>
<tr>
<td></td>
<td>Has implications for managerial action</td>
</tr>
</tbody>
</table>
differentiation and market power. The notion of product differentiation goes back to Chamberlin’s theory of monopolistic competition (Chamberlin, 1933). Chamberlin’s theory goes against the neoclassical assumption that demand is homogenous and accepts that firms can partially insulate themselves from competition by differentiating their offering. This view of competition is central to most of the normative works in marketing and strategic management. Bain-type I/O (e.g., Mason, 1939; Bain, 1951; Bain, 1954) goes a step further and adds the notions of barriers to competition and market power. Its view of the firm is that it exists to restrain productive output through colluding with other firms, or otherwise exercise monopoly power. If successful, such behaviour will result in a higher price for the firm’s products, and thus in what economists tend to refer to as ‘above-normal returns’. The use of this term indicates that Bain-type I/O continues to accept the neoclassical view that perfect competition is, in terms of social welfare, ‘perfect’. But I/O does not accept that diseconomies of scale will automatically limit the size of firms. In contrast to the neoclassical view, therefore, it accepts firm heterogeneity, even though, by focussing on differences in size, it usually takes a rather narrow view of how firms are different. The central theoretical notion of Bain-type I/O is the ‘structure–conduct–performance’ hypothesis, which states that industry structure determines the conduct of firms (including their room for product differentiation), which in turn determines their profitability. In this view of the firm, the role of the manager is broader than in the neoclassical firm, involving such activities as pricing and advertising, in addition to determining the quantity of output and collusion. However, because firm conduct is seen as being determined by industry structure, the theory remains deterministic. In fact, managers are not the intended target of I/O economists. Their emphasis has historically been on the relationship between industry concentration and profits, and their message has been aimed at government officials, who, according to Bain-type I/O, have an important role to play in limiting the size of firms through intervention in industries in which firms are gaining monopoly control.

3.2. The Chicago school

Conner (1991) sees the Chicago school (e.g., Demsetz, 1973; Stigler, 1986) primarily in terms of a reaction to the interventionist policy prescriptions of Bain-type I/O. The Chicago school revived the efficiency view that had been implicit in the neoclassical theory of perfect competition. In the Chicago view, large size and above-normal returns must be due to efficiency differentials between firms. In what can be seen as a revival of the belief in market over government, the Chicago school saw firms not as output restrictors, but as seekers of production and distribution efficiencies. This relaxes a number of assumptions in the perfect competition model. First of all, economies of scale are accepted. If firms make efficiency gains, they will grow. Moreover, the Chicago view accepts the costs of information, thereby offering an explanation for the existence of efficiency differentials. By introducing the cost of searching information, the Chicago view introduces knowledge as an input alongside labour and capital, thus, giving managers additional room to influence the success of their firms. However, in the Chicago view, as in the theory of perfect competition, there are no effective permanent obstacles to entry in an industry. Competitive advantage, then, is at best temporary, for while efficiency-based earnings need not be eliminated immediately, in the long run imitative entry will drive the firms economic profit to zero.

3.3. Schumpeter’s view

Like the Chicago perspective, Schumpeter’s view (Schumpeter, 1934, 1950) can be seen as a reaction against the antitrust policy prescriptions of Bain-type I/O. Schumpeter’s view of competition is that of a process driven by innovation. This type of competition ‘comes from the new consumer’s goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates’. It is ‘competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and outputs of the existing firms but at their foundations and their very lives.’ ‘This kind of competition is as much more effective than [price competition over existing products] as a bombardment is in comparison with forcing a door’ (Schumpeter, 1950, pp. 82–84). According to Conner (1991, p. 127), the implicit theory of the firm is that its purpose is ‘to seize competitive opportunities by creating or adopting innovations that make rivals’ positions obsolete’. In the proverbial process of ‘creative destruction,’ the source of performance differentials lies in new combinations, and Schumpeter relates the size of firms to their ability to bear the costs of innovation. Industry concentration, then, does not necessarily impede competition, but may well be a necessary condition for major innovation. It is interesting to note that Schumpeter’s view, with its inherently dynamic outlook on competition, gives the manager, or rather the entrepreneur, a much more central place in explanations of performance differentials between firms than any of the other economic theories. In fact, there are distinctly voluntaristic overtones in his view of competition.

3.4. The resource-based view

Often traced back to the work of Penrose (1959), the resource-based view (RBV) of the firm (Lippman and Rumelt, 1982; Wernerfelt, 1984) has become a centerpiece of conversation between scholars in organizational economics and strategic management (Mahoney and Pandian, 1992). The central notion in the RBV of the firm is firm heterogeneity (Peteraf, 1993). While the RBV shares with the neoclassical theory of perfect competition the view of
firms as input combiners, it departs from the neoclassical view in taking differences between firms as its starting point. Like Bain-type I/O, the RBV holds that persistent above-normal returns are possible. However, it does not see these returns as the result of a favourable industry structure, but rather as a result of the firm’s access to unique, or otherwise costly-to-copy resources (Lippman and Rumelt, 1982; Diericks and Cool, 1989; Reed and DeFilippi, 1990).

Thus, it departs from the neoclassical assumption that resources are perfectly divisible and completely mobile. Rather, it regards resources as the ultimate source of performance differentials between firms (Rumelt, 1984; Barney, 1986). Although it accepts that firms compete on the basis of products (or services), in the words of Wernerfelt (1984, p. 171) ‘[f]or the firm, resources and products are two sides of the same coin’. According to the RBV, the manager’s job is to acquire, develop, combine and deploy resources that will add value to the firm’s products or lower the firm’s costs. Performance differentials between firms result from the ability to develop unique resource combinations, and these performance differentials may persist to the degree that the resource combinations are difficult to imitate (Barney, 1991; Peteraf, 1993).

Table 2 summarizes the four schools’ views of the firm: how they explain performance differentials between firms, their main theoretical concepts, and their implications for managerial action. Note that, while these schools remain grounded in neoclassical thinking, they each take exception to at least one of the assumptions of the theory of perfect competition to explain performance differentials. I/O does not accept that firms are always price takers, nor that there is no room to differentiate the firm’s output. The Chicago view does not accept that sellers all have the same, perfect information about the market. Schumpeter’s emphasis on the role of innovation goes against the assumption that there is no room to differentiate the firm’s output. And the RBV denies that all firms have similar access to all the necessary factors of production. Thus, despite its unrealistic assumptions, the neoclassical model of perfect competition emerges as a baseline model of competition that forms a useful backdrop to understanding explanations of performance differentials between firms. If the assumptions of the neoclassical model hold, there will be no performance differentials. If there are performance differentials, the market in question does not conform to one or more of the assumptions. Indeed, as will become clear below, it is precisely the ways in which the four schools of thought differ from the neoclassical model that has provided scholars in strategic management and marketing with building blocks for their own, more practice-oriented, views of how firms can gain competitive advantage.

4. How strategic management explains performance differentials

Reviews of schools of thought in strategic management (e.g., Mintzberg, 1990; Whittington, 1993; Hoskisson et al., 1999) show that this is an eclectic field in which a large number of perspectives on strategy co-exist. It has also been noted that, over the last two decades, strategic management has become much more grounded in theory than its predecessor, the more applied field of ‘business policy’ (Barney, 1997; Hoskisson et al., 1999). Much of the theory development in the discipline has recently taken the form of conversations at the nexus of strategic management and organizational economics (Mahoney and Pandian, 1992). Positive theories of strategy are being developed in relation to I/O (e.g., Porter, 1981) and the RBV (e.g., Peteraf, 1993). In this section, we focus on the more normative strands of research in strategy. We distinguish four major normative schools of thought within strategic management: the planning school, the positioning school, the competence-based school and the process school. Two of these schools are primarily concerned with the process of strategy. The planning school (Ansoff, 1965; Learned et al., 1965) is prescriptive in nature, and has laid the foundation for the textbook approach to strategy, which largely consists of applying a number of conceptual planning tools that revolve around the now ubiquitous SWOT analysis. The process school (e.g., Quinn, 1980; Mintzberg and Waters, 1985), which disagrees with this model, is more descriptive in nature and, based on empirical studies within firms, has pointed out that the actual process of developing strategy is a far cry from the rational model embraced by the design and planning schools. Because of their emphasis on the process of strategy, these two schools have little to say about performance differentials between firms. Although the general idea underlying all of the writings in strategic management seems to be the notion of understanding ‘what a

Table 2

<table>
<thead>
<tr>
<th>School of thought</th>
<th>Source of performance differentials</th>
<th>Central theoretical concept</th>
<th>Role of management</th>
</tr>
</thead>
<tbody>
<tr>
<td>I/O</td>
<td>Differentiation and market power</td>
<td>S → C → P</td>
<td>To differentiate or restrain output</td>
</tr>
<tr>
<td>Chicago</td>
<td>Efficiency</td>
<td>Information costs</td>
<td>To seek efficiencies in production or distribution</td>
</tr>
<tr>
<td>Schumpeter</td>
<td>Innovation</td>
<td>Creative destruction</td>
<td>To create new combinations that make rivals’ positions obsolete</td>
</tr>
<tr>
<td>RBV</td>
<td>Costly-to-copy resources</td>
<td>Firm heterogeneity</td>
<td>To acquire, develop, combine and deploy valuable, rare and inimitable resources</td>
</tr>
</tbody>
</table>
company might do in terms of environmental opportunity, of deciding what it can do in terms of ability and power and of bringing these considerations together in optimal equilibrium (Andrews, 1980), before the advent of the positioning school in the 1980s and the competence-based school in the 1990s, it was not entirely clear where managers should look for opportunities and threats or strengths and weaknesses (cf. Schendel, 1994). In contrast to the planning and process schools, the positioning school and competence-based school are primarily concerned with the content, as opposed to the process, of strategy. In other words, not with how strategy is, or should be, developed, but with the nature of successful strategies. This also means that they address the sources of performance differentials between firms, albeit in quite different ways.

4.1. The positioning school

The emergence of the positioning school can be largely attributed to Porter (1980). Based on five forces that determine industry attractiveness and three generic strategies on the basis of which companies can differentiate themselves from competitors, he developed a view of strategy as positioning the firm within existing industry structures. In the view of the positioning school, strategy is about the identification of superior positions within attractive industries, and longer-term performance differentials are the result of the ability to protect these superior positions by barriers to competition, such as size and switching costs. The link between this view of strategy and the perspective of industrial organization economics is obvious (Porter, 1981). Basically, what Porter did was to replace the traditional governmental audience of I/O, which wanted to know how to increase competition, with a managerial audience, which wanted to know how to avoid it. By turning I/O on its head, Porter was able to use the structure–conduct–performance perspective to show managers how to exploit different forms of barriers to competition and (legal) market power to create competitive advantage. The five-force model is a practical tool for the analysis of industry structure, while the three generic strategies provide a checklist for possible firm conduct. Note also the parallels between the generic strategy of differentiation and Chamberlin’s view on competition, and between the generic strategy of cost leadership and the Chicago view. The result of Porter’s early work was a somewhat deterministic view of strategy as fit. The role of the manager was to analyze industry structures, identify attractive industries and superior positions within them, and take these positions by way of generic strategies. In this view, industry structure is given, and strategy is thus about analysis of available positions and choice of a generic strategy.

4.2. The competence-based school

The reasoning of the positioning school is outside-in, and despite attempts to be more specific about possible internal sources of competitive advantage (Porter, 1985), the strategic management discipline had to await the popularity of Prahalad and Hamel’s (1990) work on core competencies before the attention given to the firm’s environment was balanced by an equal interest in how the internal characteristics of firms could lead to performance differentials. Prahalad and Hamel’s work, like Porter’s, has a clear link to underlying economic theory, notably the RBV of the firm. In fact, Wernerfelt, one of the founding fathers of the RBV, credits Prahalad and Hamel with almost single-handedly popularizing this school of thought (Wernerfelt, 1995). Prahalad and Hamel do not primarily focus on the environment for sources of competitive advantage, but rather direct their analysis to the valuable, difficult-to-copy knowledge within the firm which allows it to gain access to different markets. This view of strategy has since become known as the competence-based school (Sanchez et al., 1996; Sanchez and Heene, 1997). It can be seen as a more actionable version of the RBV, with more emphasis on the sources of competitive advantage inside the firm. However, in addition to the obvious link to the ideas of the RBV, Hamel and Prahalad’s view of strategy also has a distinctly Schumpeterian ring. Their view is of strategy as stretch (Hamel and Prahalad, 1993). Managers should develop a long term ‘strategic intent’ (Hamel and Prahalad, 1989) and ‘compete for the future’ (Hamel and Prahalad, 1994) by becoming ‘rule breakers’ instead of ‘rule takers’. In their 1994 publication, these concepts culminate in the notion of ‘industry foresight’ as a label of vision, entrepreneurship and innovation. In contrast to Porter’s view, then, that of Hamel and Prahalad is voluntaristic and ‘inside-out’. Strategy is about changing the competitive rules of the game by developing and exploiting core competencies.

Table 3 summarizes the main perspectives on the firm in the strategic management literature.

The differences between the positioning and competence-based schools have fuelled a discussion on the importance of the industry versus the firm effect as an explanation of performance differentials between firms (Schmalensee,
1985; Rumelt, 1991; McGahan and Porter, 1997; Brusch et al., 1999). But despite the fact that Porter may originally have put more emphasis on analyzing industry structure, and that an important part of Hamel and Prahalad’s message is that the essence of strategy is to disrupt such structures, there is considerable overlap in the way in which the two schools explain performance differentials between firms.

A closer look at the terminology developed by the main proponents in each of the schools underscores this point. Porter’s (1991, 1996) more recent work, in which he develops his view on the sources of competitive advantage along what he calls the ‘causal chain,’ begins to link up with notions of the competence-based school. Porter argues that competitive advantage is a matter of positional advantages resulting from differential process efficiencies. This links the Chamberlin and Chicago views of competition. But in an interesting twist of terminology, he goes on to argue that we must subsequently try to understand the ‘drivers’ of these efficiencies. While Porter has made it clear that he is no admirer of the competence-based approach, and has even accused Prahalad and Hamel of tautological reasoning (Porter, 1991), it is hard to see how his notion of drivers is different from the ideas on resources developed in the competence-based school. Similarly, despite Hamel and Prahalad’s (1994) emphasis on resource-based and Schumpeterian notions of developing technological core competencies into a lever of creative destruction, their concern for customer value is entirely compatible with views which emphasize positional advantages in product markets as the essence of competitive strategy.

Given their common economic origin, the two schools have a quite similar view of the firm. In fact, the notion of the firm as an input combiner is central to both. Fig. 1 shows how the two schools’ explanations of performance differentials are related. By primarily taking their inspiration from industrial organization, and Schumpeter’s ideas and the RBV, respectively, the explanations of these two schools can be seen as a focus on opposite ends of a causal chain. The main gap between them is the Chicago notion of differential efficiencies in key business processes. A better understanding of how process efficiencies help translate unique resources into positional advantages would help bridge this gap. Porter’s (1985, 1991, 1996) later work, which puts more emphasis on business process efficiencies as a source of positional advantages, can be seen as doing just that. Thus, despite the initial differences in outlook between the positioning and competence-based schools, a common understanding of the sources of performance differentials between firms seems to be emerging. In fact, the conclusion must be that the dichotomy between the positioning view of ‘strategy as fit’ and the competence-based view of ‘strategy as stretch’ is a result of different perspectives on competition. The positioning school and competence-based school emphasize Chamberlinian and Schumpeterian competition respectively. This explains why the view of the positioning school is more deterministic than the rather voluntaristic views on strategy of the competence-based school. However, the two schools are entirely compatible in terms of their underlying theory of the firm.

5. How marketing explains performance differentials between firms

We now turn to the way in which marketing has explained performance differentials between firms. Here, we can distinguish between empirical and theoretical approaches. The PIMS project has been marketing’s most important empirical contribution (Phillips et al., 1983; Buzell and Gale, 1987). Based on data from 3000 business units, it established links between such positional advantages as relative product and service quality and market share on the one hand, and business performance on the other. Here, however, we will focus on marketing’s efforts at theory development. Over the years, marketing theorists have taken inspiration from the different schools of thought in organizational economics in much the same way as scholars in strategic management. This is especially clear in the seminal theoretical contributions of Alderson (1957, 1965), Day and Wensley (1988), Dickson (1992, 1996) and Hunt and Morgan (1995, 1996). In fact, there are notable...
commonalities between the views of these authors and the way in which strategic management has addressed performance differentials between firms.

5.1. Alderson’s functionalism

Alderson’s (1957, 1965) so-called functionalist school of thought has a somewhat special place in marketing. Though not developed further since Alderson’s death, it has nevertheless had a noticeable impact on the development of marketing theory (Sheth et al., 1988). Alderson’s work is one of the few attempts to develop a general theory of marketing, and in his assessment of the status of marketing theory, Hunt (1983) credits Alderson’s theory of the firm as a notable exception to the neglect of firm behaviour within the field. Alderson emphasized the process of ‘competition for differential advantage’ and the central role of innovation in this process. Alderson’s view on performance differentials can be inferred from a summary of his ideas by Hunt et al. (1981):

- Firms act as if they had a primary goal of survival.
- In order to survive, firms compete with other firms in seeking the patronage of households.
- A firm can be assured of the patronage of a group of households only when the group has reason to prefer the output of the particular firm over the output of competing firms. Therefore, each firm will seek some advantage over other firms to assure the patronage of a group of households. Such a process is called ‘competition for differential advantage’.
- Competition consists of the constant struggle of firms to develop, maintain, or increase their differential advantage over other firms. Competition for differential advantage is the primary force leading to innovation in marketing.

It is interesting to note that Alderson’s perspective, developed in the 1950s and early 1960s, already includes elements from both the I/O view (differential advantage) (cf. Priem, 1992) and Schumpeter’s perspective (innovation) (Dickson, 1992). The combination of these two views of competition within one theoretical framework makes the functionalist school an inherently rich perspective, and it is therefore unfortunate that not much has been done to develop it further since the mid-1960s.

5.2. Day and Wensley’s SPP framework

Day and Wensley (1988) propose a framework to clarify the nature of competitive advantage. They separate what they see as an inherently ambiguous concept into its component parts: sources, positions and performance outcomes. The resulting SPP framework conceptualizes competitive advantage in terms of a causal chain that runs from sources of advantage (superior skills, superior resources), through positional advantages (superior customer value, lower relative costs), to performance outcomes (satisfaction, loyalty, market share, profitability). The authors note that ‘underlying this simple, sequential determinism… is a complex environment fraught with uncertainty and distorted by feedbacks, lags and structural rigidities’ (Day and Wensley, 1988, p. 2). Two of the feedback mechanisms are explicitly incorporated in the SPP framework. The identification of key success factors and the relative rate of investment in skills and resources form a feedback loop from performance outcomes to sources of advantage (see Fig. 2). Day and Wensley emphasize the need to design a so-called measurement system to make the model work in practice. This measurement system should support the feedback loop by seeking diagnostic insights from both a
customer and competitor perspective. Day and Wensley’s model has become a benchmark for later publications in marketing that have sought to explain performance differentials between firms (e.g., Bharadwaj et al., 1993; Hunt and Morgan, 1995, 1996), and can be seen as an anticipation of the resource-based and competence-based frameworks developed in the strategic management literature during the 1990s. It develops a similar explanation of performance differentials between firms, but without characterizing resources in terms of market characteristics or giving much attention to organizational processes within the firm.

5.3. Dickson’s dynamic disequilibrium paradigm

Dickson (1992, 1996) argues that competitive advantage needs to be understood in terms of competitive dynamics. Dickson (1992) disagrees with the equilibrium view of markets in the neoclassical model, claiming that the essential characteristic of markets is that they are in disequilibrium. In fact, marketing is ‘the art and science of creating change (disequilibrium) in markets in such a way that the change benefits the firm’ (1996, p. 102). The basic premise of his theory is that ‘variation in the response rate of buyers and sellers to changes in supply and demand creates opportunities that can be imperfectly exploited by the motivated, alert and hustling decision maker’ (1992, p. 69). Consequently, a dynamic theory should not explain competitive positions in terms of the current level of heterogeneity in supply and demand, but in terms of rates of change (1996). The focus should therefore be on the adaptability of individual sellers over time.

In his 1992 publication, Dickson states that the imperfect procedural rationality of its marketing planners is central to the success of the firm. Procedural rationality is a cognitive construct that encompasses goal-setting, environmental analysis and implementation. These three dimensions of procedural rationality lead to three sources of competitive advantage: sellers who possess an insatiable self-improvement drive are more competitive, sellers with more acute and less biased perceptions are more competitive, and sellers who can implement faster are more competitive. Although Dickson explicitly refers to Schumpeter, his explanation of competitive advantage more resembles the Chicago view of competition, with its emphasis on temporary advantage, information processing and differential efficiencies in production and distribution.

In his 1996 publication, in which Dickson comments on Hunt and Morgan’s resource advantage theory (RA theory) (Hunt and Morgan, 1995, see below), the emphasis is on the firm’s capability to ‘learn to improve its competitive processes’ (Dickson, 1996, p. 102). The adaptability of individual sellers over time is now seen as a result of higher-order learning processes. Examples of such processes are experimentation, benchmarking, total quality management evaluation, feedback control processes such as customer satisfaction tracking and processes that reward continuous improvement. Fig. 2 shows how the overall explanation of firms’ success that emerges from Dickson’s two articles differs from Day and Wensley’s. Unlike Day and Wensley’s framework, Dickson’s emphasis is not on I/O- or RBV-inspired notions. This is clear from his comments that ‘the fundamental construct is not comparative advantage in product value and cost but is higher order learning,’ and that ‘it is a firm’s higher order learning processes that create and sustain its comparative and realized competitive advantages’ (1996, p. 104). These comments, combined with his view of competition in the 1992 paper, lead to the conclusion that Dickson’s explanation of the success of firms is based on a dynamic version of the Chicago view.

5.4. Hunt and Morgan’s RA theory

The aim of Hunt and Morgan’s (1995, 1996) RA theory of competition is to offer an alternative to the received wisdom of the neoclassical model of perfect competition. The main explananda of the original version of RA theory are the macroeconomic phenomenon of abundance and the microeconomic phenomenon of firm diversity (Hunt and Morgan, 1995). Hunt (2000) has subsequently developed the theory to also address some other macroeconomic phenomena, e.g., productivity, economic growth and the wealth of nations. While the primary objective of RA theory is not to explain performance differentials between firms, at the heart of the theory is a model of competition in which performance differentials between firms are explained in terms of a comparative advantage in resources.

This model views competition in a way that combines elements of Day and Wensley’s SPP framework with Dickson’s dynamic disequilibrium paradigm. Day and Wensley’s views underlie a view of competition as ‘the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage, and thereby superior financial performance’ (Hunt and Morgan, 1995, p. 8). Dickson’s perspective resonates in the statements that ‘disequilibrium is the norm’ and ‘once a firm’s comparative advantage in resources enables it to achieve superior performance through a position of competitive advantage in some market segment or segments, competitors attempt to neutralize and/or leapfrog the advantaged firm through acquisition, imitation, substitution or major innovation’ (Hunt and Morgan, 1995, p. 8).

The resulting causal framework is similar to the one proposed by Day and Wensley (see Fig. 2), albeit with a view of resources that reflects developments in the RBV since Day and Wensley’s publication. While Day and Wensley (1988, pp. 2–3) categorized the sources of advantage into skills (the ‘distinctive capabilities of personnel’) and resources (the ‘more tangible requirements for advantage’), Hunt and Morgan include financial, physical, legal, human, organizational, informational and relational resources as possible sources of competitive advantage (Hunt and Morgan, 1995). Moreover, as a result of the discussion with
Dickson (1996), the later version of the model puts more emphasis on learning (Hunt and Morgan, 1996). Firms are seen as learning through competition as a result of feedback from relative financial performance “signalling” relative market position, which in turn signals relative resources’ (Hunt and Morgan, 1996, p. 108). In the causal chain, learning is modelled as a feedback mechanism represented by the arrow running back from financial performance and market position to resources (see Fig. 2).

While RA theory offers a general view of competition that purports to explain a whole array of macro-and micro-economic phenomena, the way in which it explains performance differentials between firms is not fundamentally different from the work by Day and Wensley and Dickson. The added value of RA theory as an explanation of performance differentials between firms (as opposed to a theory to explain abundance and firm diversity) is that it updates and extends Day and Wensley’s views and grounds them in economic thinking by explicating the foundational premises of the theory of competition underlining the SPP framework. Like Day and Wensley’s model, and despite Hunt’s (2000) claim that it incorporates the competence view of the firm, RA theory does not give much explicit attention to matters of internal organization. As Hunt and Morgan (1996, p. 108) observe about their theory, it should be seen as ‘a positive theory that has normative implications; it is not a normative theory that is grounded in positive assumptions’.

Table 4 summarizes the main perspectives on the firm in the marketing literature.

Fig. 2 shows how marketing’s explanations of the sources of competitive advantage relate to the causal chain that is emerging in the strategic management literature. Note that none of the models covers the whole chain. The most notable gap in the models is the relative lack of attention given to business processes. While the authors touch on a number of business processes in the explication of their models, differential efficiencies in business processes is not separated out as a source of performance differentials. Dickson (1992) comes closest with his emphasis on the need for an implementation capability, but this part of his theory of competition does not receive any further attention in the later elaboration of his views (Dickson, 1996). We may conclude that, much like the neoclassical model, these are not so much theories of the firm, but theories of competition that have implications for how we should look at the firm. While competitive advantage is explained in terms of the inner workings of the firm in a more realistic way than in the neoclassical theory of perfect competition, these theories do not go into much detail with respect to the specific actions that managers can take to make their firms perform better.

6. A unifying framework to account for performance differentials between firms

The commonalities in marketing’s and strategic management’s explanations of performance differentials between firms (see Figs. 1 and 2) show that the two disciplines have common roots in economic theory. Based on this heritage, a common understanding of the sources of performance differentials seems to be emerging across the two disciplines. Fig. 3 captures this understanding. It is a view of the firm that sees innovation as the source of the specific set of resources at the firm’s disposal. Such resources are turned into product and service offerings in a variety of business processes. The firm’s position in product markets determines its relative performance. Firms compete to outperform each other. Innovation is driven by this competition and underwritten by learning processes.

We propose Fig. 3 as a unifying framework for performance differentials between firms. This conceptual model reflects the common economic heritage of the different schools of thought in marketing and strategic management. The model shows how these schools have taken inspiration from the different theories developed in organizational economics, where their explanations of performance differentials overlap, and how they differ in their respective emphases along the causal chain of possible sources of

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Source of performance differentials</th>
<th>Underlying theory</th>
<th>Role of management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alderson (1957, 1965)</td>
<td>Differential advantage</td>
<td>I/O</td>
<td>To seek some advantage over other firms to assure the patronage of a group of households</td>
</tr>
<tr>
<td>Day and Wensley (1988)</td>
<td>Innovation</td>
<td>Schumpeter</td>
<td>To seek diagnostic insights (from both a customer and a competitor perspective)</td>
</tr>
<tr>
<td>Day and Wensley (1988)</td>
<td>Superior skills and resources</td>
<td>RBV</td>
<td>To create disequilibrium in markets in such a way as to benefit the firm</td>
</tr>
<tr>
<td>Dickson (1992)</td>
<td>Lower relative cost</td>
<td>I/O</td>
<td></td>
</tr>
<tr>
<td>Dickson (1996)</td>
<td>Self-improvement drive</td>
<td>Chicago</td>
<td></td>
</tr>
<tr>
<td>Dickson (1996)</td>
<td>Higher-order learning capability</td>
<td>Schumpeter</td>
<td>To learn to improve the competitive process</td>
</tr>
<tr>
<td>Hunt and Morgan (1995)</td>
<td>Financial, physical, legal, human, organizational, informational, relational resources</td>
<td>RBV</td>
<td>To recognize, understand, create, select and modify strategies</td>
</tr>
</tbody>
</table>
competitive advantage. The model suggests that there are five possible sources of performance differentials between firms: positional advantages in product markets, differential efficiencies in business processes, unique or otherwise costly-to-copy resources, innovative capabilities and a superior learning capability.

The value of this framework is that it helps organize the many perspectives on the firm’s success that have been developed in marketing, strategic management and organizational economics. We argued that a managerial theory of the firm should explain performance differentials between firms, be grounded in more general theories of the firm, and have implications for managerial action. The unifying framework meets these criteria. As such, we believe that it can serve as a stepping stone to the development of a managerial theory of the firm. It can also help marketing scholars explicate how their work contributes to the theoretical concerns they share with such disciplines as strategic management and organizational economics.

The main hurdle to the development of a managerial theory of the firm along the lines of Fig. 3 is to open up the neoclassical black box of the firm and unravel the nature of organizationally based resources. We will refer to this as the organizational problem. As already noted, marketing theories which explain performance differentials between firms do not give much explicit attention to the role of business process efficiencies as a potential source of competitive advantage. The need to open up the black box of the firm is also a central theme in the strategy literature, and has been extensively discussed in recent contributions to the resource-based and competence-based theories of the firm. The focus of the more formal contributions to the RBV (e.g., Barney, 1991; Peteraf, 1993) has been on the notion of market imperfections (Foss et al., 1995). In this sense, Wernerfelt’s (1984, p. 171) point that ‘for the firm resources and products are two sides of the same coin’ can be taken quite literally: in I/O-inspired contributions, competitive advantage is the result of product market imperfections, while in RBV-inspired papers, competitive advantage is seen as resulting from input market imperfections (Barney, 1986). There is a notable similarity in the reasoning behind such notions as entry and mobility barriers (Caves and Porter, 1977) on the one hand, and resource barriers (Wernerfelt, 1984) and isolating mechanisms (Rumelt, 1984) on the other (cf Mahoney and Pandian, 1992). This reasoning leads to explanations of performance differentials in terms of market characteristics. By staying close to economic orthodoxy, such views of competitive advantage share a blind spot for sources of competitive advantage residing within the firm. They neglect resources that ‘must be built because they cannot be bought’ (Teece and Pisano, 1998, p. 194). Recent contributions have looked in more detail at organizationally based sources of competitive advantage like knowledge (Kogut and Zander, 1992; Grant, 1996), organizational capabilities (Leonard-Barton, 1992) and dynamic capabilities (Teece and Pisano, 1998; Eisenhardt and Martin, 2000). This literature is developing a more actionable view of the firm in terms of what it knows, what it does and how it adapts. As we will argue below, this view of the firm is not unlike the one developed in the literature on market orientation.

In addition to organizing the ideas of different schools of thought in organizational economics, strategic management and marketing, the unifying framework can also play a valuable role in organizing the fruits of different types of scholarship within marketing. A particularly important role would be to help bridge the gap between positive theories and managerially oriented contributions. The framework is best seen as a conceptual model that is grounded in positive theories and has normative implications. But much remains to be done before we understand which actions managers must take to make the model work for their firm. The remainder of the paper is concerned with the way in which the unifying framework helps organize managerially oriented scholarship within marketing.

7. Market orientation and the unifying framework

Marketing scholarship has always consisted of a mix of positive and normative theories (Hunt, 1976). The models discussed in Section 5 are positive theories with normative implications, but over the years marketing has also developed a more normative view of the firm, which is the fruit of what Sheth et al. (1988) have called the managerial school of thought in marketing. This school developed the classic notions of the marketing concept and the marketing mix, and has become the cornerstone of the textbook approach to marketing. Together, the marketing concept and marketing mix form the basis of the normative theory of performance differentials implicit in marketing textbooks. In its most basic form, this theory can be para-
phrased as follows: the success of the firm depends on its ability to develop and produce products that meet customer needs (the marketing concept), and to design its marketing programmes so that these products are favourably perceived by customers (the marketing mix).

Originally developed in the early 1960s, this view of the firm has been redeveloped in the contemporary literature on market orientation (e.g., Houston, 1986; Kohli and Jaworski, 1990; Narver and Slater, 1990; Jaworski and Kohli, 1996). Over the last 10 years, market orientation has become the most widely discussed concept in the marketing literature in relation to performance differentials between firms (e.g., Narver and Slater, 1990; Jaworski and Kohli, 1993; Pelham and Wilson, 1996). However, as Hunt and Lambe (2000, p. 28) have recently noted, the literature on market orientation ‘lacks an underlying theory that could provide an explanatory mechanism for the positive relationship between market orientation and business performance’.

Market orientation has been discussed in relation to a host of other concepts (e.g., Jaworski and Kohli, 1996; Slater, 1997), including market information processing (e.g., Sinkula, 1994; Moorman, 1995; Slater and Narver, 2000), market knowledge (e.g., Menon and Varadarajan, 1992; Slater and Narver, 2000), superior customer value (e.g., Slater and Narver, 1994; Woodruff, 1997), business processes (e.g., Day, 1994a; Srinavasta et al., 1999) and learning (e.g., Sinkula, 1994; Hurley and Hult, 1998). Most of these discussions seem to be premised on the idea that a market orientation is something that can somehow be separated from these other concepts. However, Kohli and Jaworski’s definition of market orientation as ‘the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization wide responsiveness to it’ (Kohli and Jaworski, 1990, p. 6) seems to at least contain elements of information processing and the organization of business processes. Similarly, Day has argued that the way the firm organizes its business processes and learns about markets (Day, 1994a, b) is the essence of market orientation. Hunt and Morgan seem to suggest that knowledge about markets is central to market orientation, saying that market orientation is (1) the systematic gathering of information on customers and competitors, both present and potential, (2) the systematic analysis of the information for the purpose of developing market knowledge, and (3) the systematic use of such knowledge to guide strategy recognition, understanding, creation, selection, implementation and modification (Hunt and Morgan, 1995, p. 11).

Slater and Narver explicitly link market orientation to customer value and learning when they define it in terms of a learning culture that ‘places the highest priority on the profitable creation and maintenance of superior customer value while considering the interests of other key stakeholders’ (Slater and Narver, 1995, p. 67).

While, initially, these different views of market orientation may seem to confuse the issue, they make sense if we regard market orientation as a potential source of competitive advantage in light of the unifying framework. Basically, the ways in which different authors have addressed market orientation only differ in the emphasis they put on the different parts of the chain. Fig. 4 shows how the framework helps organize the different perspectives. According to this figure, the market-oriented firm can be seen as a firm which has knowledge about its markets (an intangible resource), is able to turn this knowledge into customer value and can adapt to changes in its markets (a higher-order learning capability). Underlying this is the firm’s ability to process market information.

This view of market orientation is at odds with the notion that the concept itself can be separated from, for example,
information processing, market knowledge and learning (Jaworski and Kohli, 1996). In fact, unless it is expressed in terms of information processing, learning, knowledge and value generation, the notion of a market-oriented firm is rather empty. In Fig. 4, market orientation emerges as a multidimensional construct that cannot be seen in isolation from its constituent elements. We would argue that the way in which these elements combine into a source of competitive advantage is essential to unravelling the explanatory mechanism for the relationship between market orientation and business performance that Hunt and Lambe (2000) found lacking.

Fig. 4 also suggests how the literature on market orientation could contribute to the managerial theory of the firm. We have seen that there is a particular need to further develop our understanding of internal business processes as a source of competitive advantage. The market orientation literature can add an important element to the positive theories of competitive advantage by more specifically addressing how business processes translate relative resource advantages into positional advantages in product markets. Note that there is an interesting link between the Chicago perspective of costly information as a source of differential process efficiencies between firms, and the emphasis on processing market information in the market orientation literature. An appropriate angle for marketing scholars could therefore be to focus on the role of information in managing the firm’s business processes. We would argue that the contemporary market orientation literature, with its emphasis on the ability to act upon market intelligence, has the potential to develop such an information-based account of competitive advantage.

However, much needs to be done to make the theory actionable. The normative implications of the market orientation literature in its current form have limited value for the daily practice of management. So far, the message has been that a firm needs to be interfunctionally coordinated (Narver and Slater, 1990) and responsive to market information (Kohli and Jaworski, 1990). Our view is that, based on the way in which the unifying framework helps organize the different elements of market orientation, market information can only lead to a positional advantage in product markets if this information leads to knowledge about markets that allows the firm to generate differential customer value (cf. Slater and Narver, 1994; Slater, 1997; Woodruff, 1997). We propose that the notion of interfunctional coordination can be specified as developing faster, better or more cost-effective value generation processes, and that being responsive would mean the development of a higher-order learning capability to adapt these processes.

Following the logic of Fig. 4, there is an obvious need to be much more specific about which type of information needs to be generated and processed, as well as about the type of business processes in which it should be used. Suggestions in the literature with respect to the former include customer value, satisfaction measurements and competitor benchmarking (Day and Wensley, 1988; Dickson, 1996). Suggestions with respect to the latter include market sensing, customer linking and channel bonding (Day, 1994a), and product development, supply chain management and customer relationship management (Srivastava et al., 1999). While the marketing literature thus certainly provides pointers for managerial action, fulfilling the promise of the market orientation concept as a managerially meaningful view of the firm would call for answers to questions like:

- Which business processes lead to market knowledge and how do these processes need to be designed and managed?
- Which business processes translate market knowledge into differential customer value and how do these processes need to be designed and managed?
- Which business processes lead to market learning and how do they need to be designed and managed?
- Which market information is needed to manage these different business processes and how should it be generated and processed?

8. Conclusion

We have looked at the development of a managerial theory of the firm as a joint concern of scholars in organizational economics, strategic management and marketing. We have argued that performance differentials between firms are the main explanandum of such a theory, and have shown that a common understanding of the sources of performance differentials is emerging across the three disciplines. Our review suggests that a managerial theory of the firm should be seen as a multilayered theory. The baseline model of the firm is the neoclassical view. Despite its unrealistic assumptions, the neoclassical model of competition is the most widely understood model of the relationship between firms and markets. It has therefore served as a reference point for scholarship in organizational economics, where different schools of thought have developed theories of the firm that relax some of the assumptions of the neoclassical model. These theories were developed to explain why firms exist, and how and why they are different, rather than to explain performance differentials between them. However, these same theories have inspired theorists in strategic management and marketing to develop theories of competitive advantage that do primarily focus on explaining performance differentials between firms. Orthodox neoclassical thinking thus underlies more enlightened theories in organizational economics, which in turn underwrite scholarship in strategic management and marketing. Moreover, there are two more or less separate layers of theory development in both marketing and strategic management. The first is a layer of positive theories at the nexus of strategic management, marketing and organizational
economics. The second is a layer of normative theories at the nexus of strategic management, marketing and the daily concerns of managerial practice. Reflecting these different layers of theory development, our view of a managerial theory of the firm is a theory whose ultimate test is the value of its prescriptions for the practice of management, but whose normative implications are grounded in underlying positive theory.

Our main purpose has been to organize the main strands of scholarship on the theory of the firm in marketing in relation to the main schools of thought in strategic management and organizational economics. This has resulted in a unifying framework that explains performance differentials between firms in terms of positional advantages in product markets, business process efficiencies, unique or otherwise costly-to-copy resources, innovative capabilities and a superior ability to learn. The main hurdle to the further development of a managerial theory of the firm along the lines of this framework is to unravel the nature of organizationally based sources of performance differentials. Recent contributions to the resource-based and competence-based views of the firm have begun to address this problem (e.g., Leonard-Barton, 1992; Grant, 1996; Teece et al., 1997). Given its long history as a managerially oriented discipline, and its renewed emphasis on internal organization as a result of the wave of publications on market orientation, marketing is well placed to contribute to the theories on organizational sources of competitive advantage now being developed in the strategy literature. Addressing the nature of organizationally based sources of performance differentials calls for a better understanding of which business processes affect the firm’s ability to generate differential customer value, and how these processes should be designed and managed to sustain competitive advantage.

In our view, the promise of marketing theory’s contribution to a managerial theory of the firm requires a two-step integration. First, an integration of the different strands of research, both positive and normative, within marketing. Second, an integration of marketing theories with those on strategic management and organizational economics. Marketing can contribute to the more formal, positive theories of the firm developed at the nexus of strategic management and organizational economics if it is able to explicate how its theories relate to underlying economic thinking. Marketing can contribute to the normative, managerially oriented theories of strategy by developing a better understanding of which managerial actions can contribute to developing and exploiting the different sources of performance differentials discussed in the positive theories of the firm. The combination of these two possible contributions leads to the conclusion that marketing’s main contribution to a managerial theory of the firm could well be the development of a normative approach to management grounded in positive theories. To accomplish this, it is important that the positive and normative strands of research in marketing build on a shared model of the firm. Herein may lie the main contribution of the unifying framework proposed in this paper. It will have served its purpose if it can help marketing scholars develop an actionable theory of the success of firms.

Acknowledgements

The authors thank the reviewers and editors of this special issue for their valuable comments on an earlier version of this paper.

References

Schendel D. Introduction to competitive organizational behavior: toward an
organizationally-based theory of competitive advantage. Strategic Man-
Schumpeter JA. The theory of economic development: an inquiry into prof-
Sheth JN, Gardner DM, Garrett DE. Marketing theory: evolution and eval-
Slater SF, Narver JC. Market orientation, customer value, and superior perfor-
Teece DJ, Pisano G, Shuen A. Dynamic capabilities and strategic manage-