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Measuring marketing performance against the backdrop of intra-organisational change

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Abstract *Measuring the financial performance and contribution of marketing activity is a challenge increasingly faced by marketers globally. In this paper, we consider the potential effects of intra-organisational change, particularly employee turnover or "churn", on the measurable financial performance of an organisation and the ability of an organisation to sustain desired performance. We also discuss implications for research.*

Introduction

Marketing practice is required to respond to changing internal as well as external circumstances. In this paper we focus on the increasing emphasis being given by organisations to the measurable contribution made by marketing to "bottom-line" performance, and the potential impact of internal change on this. We conclude with implications for research.

The challenge of accountability

Marketing performance measurement and accountability has been attracting increasing emphasis within organisations (Ambler, 2000; Doyle, 2000). Measures of marketing performance employed by senior management to assess and evaluate the effectiveness of, and return from, marketing activity involve, *inter alia*, the financial return on marketing activity inclusive of sales and market share; the management and contribution of service-profit chain relationships; the management and value of brands and other intangible assets as well as the more tangible assets of an organisation and its product portfolio; the return on customers served; and the extent to which marketing practice can

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be shown to increase the organisational wealth and value to shareholders. These measures represent significant challenges to marketers, particularly in terms of strategy decisions affecting, resource deployment and reported results.

Correspondingly, over the past ten years there has been a noticeable shift in the accounting, finance, and related literature from an emphasis on financial performance measurement *per se* to valuation, that is, how financial accounting data can be employed to estimate shareholder value (Stewart, 1999; Verrecchia, 1998; Cornelius and Davies, 1997; Rappaport, 1986). This shift has potentially significant implications for marketing practice.

Shareholder value creation – the place of intangible assets

In organisations where shareholder value creation is emphasised, senior management and directors expect marketers to demonstrate in what respects marketing activity, classified as an intangible asset, contributes to an organisation's assessable shareholder value (Srivastava *et al.*, 1998). Marketing and market-based assets include those of an intellectual nature – the knowledge that a firm possesses about its business environment; and those of a relational nature – relationships between a firm and key external stakeholders (Low, 2000; Mayo, 2000; Heskett *et al.*, 1997). Both imply human capital. The former reside in an organisation's accumulated knowledge, experience and expertise; the latter derive from relationships formed by, and maintained between, parties. These intangible intellectual and relational market-based assets contribute positively to shareholder value in five principal ways.

First, the personal knowledge, competence, relationships, experience and expertise that serve to create competitive advantage (Edvinsson and Malone, 1997; Quinn, 1992; Prahalad and Hamel, 1990), value and wealth for an organisation (Heskett *et al.*, 1997; Huselid, 1995; Barney, 1991) constitute and remain an asset only insofar as the personnel in whom they reside remain with the organisation. Thus, the return to an organisation of its investment in its human capital depends, to some extent, on the continuity and ongoing investment in this resource.

Second, trust is embedded in the regard that one individual has for another, and is transferable to an organisation only insofar as the personnel in whom it is grounded warrant it and continue to remain in a position where this trust can be beneficially leveraged by the organisation they represent (Nicholson *et al.*, 2001; Jones and George, 1998; Barney and Hansen, 1994). Therefore, there is a risk that an organisation may suffer loss of trust when it loses personnel in whom this trust is grounded.

Third, organisational culture, and shared values and behavioural norms that underpin this, is created and sustained by its personnel. Organisational culture is dynamic, and as the composition of people changes so do shared values and behavioural norms. Consequently, turnover of staff who are central to the creation and sustenance of an organisation's culture, values and norms may put these in jeopardy.

Fourth, these assets are invisible. It is only the results of how the assets are employed that are visible and measurable. Thus the potential and actual value of these assets may not be understood or appreciated until they are withdrawn from an organisation.

Fifth, the accumulated knowledge, skills, abilities and experience of people cannot be replicated (Cappelli and Crocker-Hefter, 1996; Lado and Wilson, 1994), and provide grounds on which important business relationships are established and maintained (Reicheld, 1996; Rousseau and Wade-Benzoni, 1994).

These contributors to shareholder value demonstrate that good people represent assets that warrant investment, nurturing and retention (Snell *et al.*, 1999; Becker and Huselid, 1998). Meeting the challenges of performance accountability and shareholder value creation demands that marketers deal effectively with changes that are internal and external to the organisation in which they work. Our interest here lies particularly in the extent to which marketing performance and accountability are challenged by intra-organisational change.

The challenge born of intra-organisational change

Intra-organisational change can take many forms and includes changes in policies and policy-making, procedures and practices, financial circumstances, ROI targets and, significantly, changes in personnel. All have a bearing on the way in which an organisation functions, its capacity and capabilities, cultural environment and behaviour, and, consequently, organisational asset composition, value and performance. Given that performance is governed by an organisation's personnel, changes in personnel profile may be expected to have a demonstrable effect on organisational performance. These personnel changes can be referred to as "churn", defined as occurring whenever a marketing, product or brand manager leaves their position of employment within a period of about two years. We acknowledge that an individual's move to another department within the same organisation could also be classified as churn. However, owing to the potentially greater risks associated with the outright loss of key people to an organisation, it is the nature and implications of only this type of churn that is the focus of this paper.

Churn involves a number of implications for organisations. We briefly consider three relating to costs, brand management and human resource (HR) management.

Cost implications

Churn has a direct impact on the cost structure of a business. First, there is a direct cost associated with recruitment of staff. This is particularly pronounced at a managerial level. Second, there are acclimatisation and training costs that are not recouped until the benefits of the training are manifest in an employee's contribution to the organisation over time. People new to an organisation require time to get to know the organisation, its personnel, policies and procedures, as well as contribute to organisational productivity. Time is required for them to get to know the business, markets served, supply chain partners and other key stakeholders. Finally, there are costs associated with the destabilising effect of the departure of key people. This cost comes at the expense of organisational climate and culture, but is also likely to be manifest in lost experience and expertise, and effects on customer relationships (Appelbaum and Gallagher, 2000; Boudreau and Ramstad, 1999).

Brand management implications

Churn can have a major impact on how brands are managed, and the continuity and team effectiveness of brand management, consistency of which is critical to brand performance and integrity (Davis, 2001; Berthon *et al.*, 1999; Doyle, 1993). Brand identity is at risk when decisions become inconsistent. Consequently, consumers can become disenfranchised, finding it harder to see where the brand fits in their lives, and move on to other brands in their purchase set (Knox, 1997; Dick and Basu, 1994).

In marketing departments where there are high levels of churn, corporate or, more specifically, brand memory runs the risk of becoming lost, as can vital market and competitive knowledge that underpinned past decisions. Managers who are not in an organisation long enough to accumulate a strong knowledge of markets and competition are less likely to make informed strategic decisions.

HR management implications

Churn in senior personnel can also result in a loss of leadership, direction and mentoring, with a consequential impact on corporate memory, climate and culture. This loss of intellectual and social capital (Stewart, 1997; Bontis, 1996) can have an adverse effect on organisations that derive their competitive advantage from their key people and their particular competencies (Quinn *et al.*, 1996). More particularly, churn may have the effect of shifting intellectual and social capital to a competing organisation. Furthermore, because these intangible assets are often harder to acquire than tangible assets, they are not easily reproduced and take time to replace (Doyle, 2000).

High turnover of people makes it difficult to build meaningful relationships with other departments (e.g. sales or production) as well as external suppliers and trading partners. These relationships can have a significant bearing on an organisation's operational effectiveness, productivity, competitiveness and profitability, placing these important considerations at risk (Wathne *et al.*, 2001; Uzzi, 1996).

Possible effects of churn on shareholder value

Churn can impact negatively on shareholder value. Diminished levels of intellectual and relational assets, and associated competencies and expertise, mean that an organisation is thereby deprived of the value creation capacity and value contribution embedded in these. This means that an organisation may have, at least temporarily, a diminished competitive ability, a diminished capacity for innovation, and a decreased ability to generate profitable business growth. The aggregated costs of replacing these key intangible assets may act as a further drag on performance and impact negatively on profitability.

The research opportunity

In the first instance the nature and extent of churn across different industries and in different geographic locations needs to be established empirically. It remains to be determined exactly where and in what circumstances it is manifest, and what are its effects.

Second, it is necessary to understand the specific causes of churn in the marketing profession in order to know what to do about it. If the phenomenon is widespread, and if its impact on organisations is shown to be detrimental, then clearly it is a phenomenon that may need to be redressed. The determination of appropriate counter measures, however, will depend on understanding root causes and expectations of marketing personnel.

Third, the corporate impact and cost of churn should be quantified. The relationship between strategic HR management and an organisation's financial performance and shareholder value has already been established. Correspondingly, however, more needs to be done by way of measuring costs relating to mobility of senior marketing personnel on corporate financial performance and shareholder value. The impact associated with the loss of knowledge, experience and expertise, on internal and external business relationships, and an organisation's internal culture, also needs to be better understood.

Finally, a strong argument exists for the need to quantify the value and return to a firm, and to its stakeholders, of its resident marketing expertise. This tacit knowledge will lead to an improved understanding of the value and contribution of this asset. Moreover, this information will also provide a frame of reference for quantifying the costs associated with turnover of key personnel.

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