Toward Competence Retention: A Framework for the Reconciliation of Organization-Wide Marketing Logic

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Abstract: There have been calls for marketing to focus on the role of competences in the competitive advantage literature, generally, and in the co-production of value in the service-dominant logic, specifically. While much discussion has ensued on competence *creation*, this article provides a conceptual framework for future research on competence *retention*. Adopting an organization-wide marketing perspective, propositions build on relevant, organization-wide literature, including marketing, strategy, finance, accounting, legal, information systems, and organization economics. Implications for researchers and practitioners are introduced.

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> *…in the evolution of the marketing system there have developed two kinds of specialization. The first is the division into separate trades, whereby each class of dealers handles a single commodity or group of commodities.*
>
> *-- L. D. H. Weld, 1920*

The study of marketing in academe is rooted in western agricultural stories that echo the prior epigraph as follows: With technology advances in irrigation, a typical farmer who no longer has to dry farm could focus on growing only the more profitable crops, such as tomatoes, instead of having to rotate them with less profitable crops that could now be more profitably outsourced from relational partners, or even competitors, at the market and resold. During the next few production cycles, focusing on tomatoes would result in record sales and profits. Over time, however, the soil deteriorates—resulting in bad tomatoes—because the crop alternation is what preserved the soil fertility, etc. Thus, what began as a strategy to obtain superior profits from specialization evolved into a pile of unmarketable fruit rotting on withering vines. In the end, *focusing* on the tomatoes, ironically, ended up *destroying* the tomatoes.

Drawing a parallel between the physical and the social system, we introduce this story to make three points concerning the retention of competences. The first two are, perhaps, less controversial. First, marketing scholarship and practice could benefit from research on the *retention* of competences. Vargo and Lusch (2004) propose that the literature on marketing strategy and management should be centered on the *role* of competences in the production of competitive advantage. While a significant stream of research has advanced our knowledge surrounding the *creation* of competences from both marketing (e.g., Atuahene-Gima 2005; Chandy, Prabhu, and Antia 2003; Day 1994; Day and Wensley 1988; Grewal and Tansuhaj 2001; Hunt 1995; Mizik and Jacobson 2003; Srivastava, Shervani, and Fahey 1998) and strategy

(e.g., Cockburn, Henderson, and Stern 2000; Foss 1993, 1996; Prahalad and Hamel 1990; Reed and DeFillippi 1990; Teese and Pisano 1994), among other contributing disciplines, there appears to be a dearth of literature concerning the *retention* of competences.

Second, while diverse opinions exist regarding when to use relationship-based versus transaction-based contracting *between* firms, when it comes to the make or buy decisions *within* firms, many organizations continue to use transaction cost analysis for marketing decision making (Rindfleisch and Heide 1997). Indeed, the "focus has been on transactions as the unit of analysis" (Webster 2005, p. 4). Transaction cost analysis follows the efficiency logic of Coase (1937). Williamson (e.g., 1975) distinguishes between first order and second order economizing. First order economizing refers to *whether* an organization should make or buy a function (i.e., choices *between* governance modes). Second order economizing, in contrast, refers to adjustments at the margin (i.e., choices *within* a specified governance mode). In regards to competence creation, most of the research and practice focuses on modeling second order economizing at the margin when evaluating product performance (e.g., size scale (dis)advantages, costing (dis)advantages *within* each governance mode). The combination of resources that result in competences leading to sustainable advantage are typically, indeed, (1) causally ambiguous, (2) socially and technologically complex, and (3) require time to develop (Barney 1991).

Building upon the first two points, and perhaps more controversial, is the third point—the focus of this article: We argue that contrary to the logic of competence *creation*, the retention of competences, like the retention of crop fertility, requires "second-order first-order" economizing. That is, using longitudinal analysis and forecasting that accounts for the resource specialization composite primacy effect instead of focusing on short term, transaction-specific metrics; otherwise, the ambiguity, complexity, and temporality of the competence that resulted in the

initial comparative advantage for an organization can work against retention of the competence, potentially resulting in a comparative disadvantage.

Adopting the lens of marketing as an organization-wide function (Webster 1992), scientific inquiries, at times, may require an organization-wide evaluation (Kohli and Jaworski 1990). Thus, addressing the organization-wide retention of competences would involve a review of the relevant, organization-wide literature, including research in marketing, strategy, finance, accounting, human resources, legal, and information systems. The goal of this manuscript is to provide a conceptual framework for future theoretical and empirical research on competence retention. In our attempt to synthesize the literature, we identify three constructs and propose that, through integration, they mediate the relationship between the resource specialization composite primacy in organizations and competence retention.

This manuscript proceeds as follows. First, we offer a conceptual framework that synthesizes the domain-based theories of several important functions in organizations. For each of the constructs, we review prior literature, and consistent with the organization-wide evaluation, provide organizational economic logic establishing relationships in the framework, resulting in propositions. We then assess how empirical research could investigate our propositions, presenting potential methodology. We conclude the article with competence retention guidelines for practitioners to consider when making strategic decisions. However, in response to prior calls (e.g., Webster 2005), we hope that our conclusions are only the beginning of a dialogue within marketing on how strategy should guide tactics within an evolving view of marketing.

CONCEPTUAL FRAMEWORK

Why do firms ever take risks? Stulz (1996, p. 11-12) has argued that “firms gather information that is not publicly available…[that] gives them a comparative advantage in taking some types of risks over their shareholders.” One such risk is whether or not to outsource organizational functions that could be part of organizational competences. In this paper, we use

organizational economic logic to investigate how people organize in particular ways due to scarcities arising from the creation and retention of competences. In this section, we provide a framework of competence retention in organizational settings that draws from these logics to explain how constructs relate consistent with prior marketing literature.

<< insert Figure 1 about here >>

Competence Retention

Many theories have been introduced into the literature to explain the nature of the firm. While they use different units of analysis, assumptions, and boundaries, it has been recognized, however, that "they all agree…for conceptualizing firms as heterogeneous, knowledge-bearing entities" (Foss 1996, p. 470). The heterogeneity of the knowledge within a firm can combine with other resources to form competences that are the basis of competitive advantage (Barney 1991). We argue that while particular *competitive advantages* typically cannot be *sustained* indefinitely, there is no reason why *competences* could not be *retained* indefinitely, recombining over time to provide evolving competitive advantages.

Extending Prahalad and Hamel (1990), Hunt (1995), and Hunt and Morgan (2003), a competence is defined here as a combination of operant and operand resources that contain the market-directed organizational learning embedded in the current employees, resulting in the harmonizing of complex streams of technology and work activity to meet organizational goals. Within our definition, organizational learning is a means of (1) realizing efficiencies (Foss and Foss 2000), (2) obtaining relational power (Pfeffer 1981, 1995), and (3) "results in the fundamental bases of competitive advantage" (Sinkula 1994, p. 37).

As these competitive advantages evolve within organizations, sometimes production functions (and the associated employee learning) that were once made are now bought—also known as outsourcing. In this article, we use the term outsourcing to refer to the organizational decision to delegate an entire internal organizational function to an external facility. Often,

executives choose a different governance structure for the function in an attempt to improve firm efficiency and/or power. The natural consequences of competence retention efforts include that, in order to be retained, competence forming resources must remain within firms (i.e., not be outsourced).

Triangulated Isomorphism

Vorhies and Morgan (2005) propose that "benchmarketing" has the potential for building competences to deliver sustainable advantage. However, according to institutional theory, institutional isomorphism often occurs as organizations benchmark each other; that is, firms within an industry become more homogenous over time from similar environmental exigencies (Meyer and Rowan 1977). Consistent with Hawley (1968), we assert that the isomorphism is a constraining process. That is, higher levels of isomorphism result in lower levels of organizational comparative (dis)advantage. In what has become a seminal institutional theory article, DiMaggio and Powell (1983) propose that institutional isomorphic change can occur through three mechanisms: coercive, mimetic, and normative—which each have their own antecedents. Coercive isomorphism is defined here as the adoption of certain norms due to external pressures. Mimetic isomorphism is defined here as the intentional imitation or copying of other firms to increase legitimacy. Normative isomorphism is defined here as the indirect adoption of norms and values of other organizations due professionalism; that is, the collective struggles of employees to define conditions and methods of their work, to control production, and to establish a cognitive base and legitimation for occupational autonomy. However, according to Mizruchi and Fein (1999, p. 225), the existing isomorphism measures "used to capture one of their concepts could have well served as valid measures of one of the others." In a move towards reconciliation, we propose that the antecedent measures of these three isomophisms can be regrouped into three constructs: (1) inter-organizational causal ambiguity, (2) intra-organizational causal ambiguity, and (3) rewards systems alignment, each to be defined

shortly. While we propose that these three constructs are independent in nature, we assert that they have an integrative effect on competence retention. In this paper, we use the term "triangulated isomorphism" to refer to the recursive interaction of inter-organizational casual ambiguity, intra-organizational causal ambiguity, and rewards systems alignment.

For example, what happens when firms with similar executives (i.e., normative isomorphism) *do not* benchmark (i.e., mimetic isomorphism) against the same firms (i.e., normative isomorphism) that have adopted the most efficient short-term design (i.e., coercive isomorphism)? Provided they are no longer rare, imperfectly tradable, and costly to imitate (Barney 1991), they are selected out of the market (Roberts and Greenwood 1997). However, Roberts and Greenwood (1997, p. 354) also indicate that "organizations operate and make choices in environments where much is taken for granted." Related, Kruger and Dunning (1999) find that as knowledge is gained, what it took to get there can be forgotten as knowledge becomes embedded. Following Levinthal and March (1993), Miller (2002, p. 694), likewise, argues that "if managers are able to ascertain the current state but fail to consider the future, they will simply choose the technology that maximized current returns for the identified state." Thus, if practitioners continue to use second order economizing analysis (instead of second-order first-order analysis, as we propose), then when transaction costs arising from the friction in such communication ensues, the firm will have lost the ability to access the knowledge embedded in those functions because "the production of a resource itself or one of its critical inputs is [now] controlled by a monopolistic group… diminish[ing] the returns available to the users of the resource" (Wernerfelt 1984, p. 173). This type of cognitive legitimation (Aldrich and Fiol 1994) can result in firms being selected out of the market later for following the first logic that attempted to preserve short-term efficiency. Thus,

> *Proposition 1.* Accordingly, we propose that the level of triangulated isomorphism is negatively associated with the degree of competence retention.

Inter- and Intra-Organizational Casual Ambiguity

Williamson states that learning-by-doing, specialized training, and team configurations are conditions that give rise to substantial human asset specificity (1985). Adapting from Williamson (1985), in this paper human asset specificity is defined to be "durable investments [in human capital] that are undertaken in support of particular transactions". According to Reed and DeFillippi (1990), this specificity can be a source of both advantage and ambiguity. In this paper, "inter-organizational casual ambiguity" occurs when competitors do not comprehend the competences on which the advantage is based. For Reed and DeFillippi (1990), this achieves the most effective barriers to imitation. They recognize, however, that sometimes "not even managers within the firm understand the relationship between actions and outcomes" (Reed and DeFillippi 1990, p. 90). In contrast**,** "intra-organizational causal ambiguity" refers to when functions within an organization do not comprehend the competences on which the advantage is based in the same manner. Williamson (1985, p. 56) proposes that "governance structures differ in their capacities to respond effectively to disturbances." Core competences that are complex can generate both intra-firm and inter-firm ambiguity. Intra-firm ambiguity increases barriers to imitation. These barriers increase the sustainability of the core competence. Inter-firm specificity ambiguity can increase the likelihood that mixed assets will be labeled as general assets (Williamson 1985), which—according to outsourcing logic—should be procured from the market.

Reward Systems Alignment

When decision authority is held by different parties, well designed contracts are prerequisite for aligning managers' risk attitude with shareholders (Jensen and Meckling 1976). According to agency theory, because differences in risk preferences often lead to different goals, establishing efficient contracts, either behavioral-oriented, outcome-oriented, or mixed-oriented, is important to reduce the potential conflicts of interest (e.g., Anderson 1985; Eisenhardt 1989). Jensen and

Meckling (1976) propose that equity ownership by managers would aligns their interests with those of owners. Mehran (1992) found a positive relationship between the firm's leverage ratio and both the percentage of executives' total compensation in incentive plans and percentage of equity owned by managers. Often, managerial equity occurs through stock options. While once highlighted for its ability to align incentives, it has come under recent attack (Hall & Murphy, 2003). As a performance contract, stock options are bounded by the temporal framing of option exercising. If management is operating under a shorter time horizon than primary stakeholders, the contract becomes less efficient at aligning goals and may reward behaviors it intends to suppress (Kerr, 1995). In this paper, we use the term “rewards systems alignment” to refer to the coordination of perceived contractual valuations by managers with the interests of major stakeholders, reducing moral hazards and agency problems.

How effectively are executive incentives aligned? Hall and Murphy (1989, p. 49) have argued that “the benefits of stock options are often not large enough to offset the inefficiency implied by the large divergence between the cost of options to companies and the value of options to risk-averse, undiversified executives and employees.” While this argument has yet to be widely scrutinized, and although it is possible there may be still other reasons for the misalignment of executive and stockholder goals, I believe that this is a key reason for managers choosing to “buy” rather than “make” products or services that are more efficiently performance in the market but decrease long term core competences. Difference in perceived contractual valuation of stock-based incentives lead to differences in risk attitude. In turn, differences in risk attitude lead to differences in governance preferences. Thus, if managers operate under shorter perceived valuations, they may be more inclined to outsource functions to the market. Therefore, we assert:

Proposition 2. We propose that higher reward system alignment is positively associated with the level of intra-organizational causal ambiguity.

Proposition 3. We propose that higher reward system alignment is negatively associated with the level of inter-organizational causal ambiguity.

Proposition 4. We propose that higher levels of intra-organizational causal ambiguity are positively associated with higher levels of inter-organizational ambiguity.

Resource Specialization Composite Primacy

The *creation* of these competences is affected by (1) path dependence (e.g., Heide and John 1988; Houston and Anderson 2000; Hunt and Morgan 1996; Jap and Ganesan 2000; Ofek and Sarvary 2003; Sterman and Wittenberg 1999; Vargo and Lusch 2004), (2) organizational learning (e.g., Argyris and Schon 1978; Arnett and Badrinarayanan 2005; Foss 1993; Foss and Foss 2000; Glazer 1991; Noble, Sinha, and Kumar 2002; Pfeffer 1995; Sinkula 1994), (3) market orientation (e.g., Kirca, Jayachandran, and Bearden 2005; Kohli and Jaworski 1990, Matsuno and Mentzer 2000; Narver and Slater 1990; Noble, Sinha, and Kumar 2002), and (4) resource externalities (e.g., Arrow 1970; Cornes and Sandler 1986; Hunt and Morgan 1996; Williamson 1979). Together, these constructs form a resource specialization primacy composite, interacting in various ways. Provided the focus here on competence *retention*, and due to space constraints, this paper does not include propositions on all of the probable relationships between these competence creation constructs. Rather, we predict the composite effect in our model.

Proposition 5. Accordingly, we propose that the level of Resource Specialization Composite Primacy is negatively associated with the degree of competence retention.

DISCUSSION

The preceding suggests that competence retention is, indeed, complex—but it is not a conundrum. We propose that competence retention is the other side of the competence creation coin and adds value to scholarship on competition. In this article, we have proposed that, similar to the farmer in the introductory story, individuals may destroy an organizational competence over time through too narrow of a focus on the "core" of a competence that results in the

outsourcing of its periphery. Additionally, we maintain that our model is not an historical artifact dug out of the shallow plow lands of western farming tales. For example, a similar process is currently occurring in the global high-technology services industry according to in-depth interviews we conducted with executives at a number of firms. Several leading firms—including Cisco Systems, Dell, EMC, Epson, Hewlett Packard, International Business Machines, Sun Microsystems, and Toshiba—are outsourcing laptop-support teams and desktop-support teams to global markets and focusing more on "mission critical" server-support teams, etc. The in-depth interviews with senior managers indicate that high levels of triangulated isomorphism exist: (1) executives across departments/divisions are not able to trace the path dependences in competences within the firm, resulting in higher intra-organization causal ambiguity, (2) the same group of firms each possessing a similar intra-organizational causal ambiguity are benchmarking each other, resulting in increased inter-organizational ambiguity, and (3) the executives are being compensated largely through stock options that increase in value when labor cost savings occur, indicating lower reward system alignment. Combined, these factors can result in a calculus of disaster as the triangulated isomorphism interfere with managements' ability to retain competences. The result—immediate decreases in payroll expense from outsourcing the desktop and laptop support teams, increases in managerial variable compensation, and no immediate effect on organization competences. However, within the next decade, most of the current employees on the server-support teams will be retiring—and "retiring" the organizational learning embedded within them. Consistent with the counterintuitive outcome in the farmer analogy, focusing solely on the server-support teams will destroy the server-support teams.

Implications for Researchers

We propose that our framework can be used by scholars investigating competition to gauge competence retention. We believe it could assist scholars in understanding phenomenon in other

areas of research where triangulated isomorphism may occur, including for-profit organizations, non-profit organizations, networks, and scholarly communities. Regarding scholarship on for-profit organizations, there are scarcities in capital. The make or buy decision is influenced by the presence of triangulated isomorphism, affecting competence retention. Regarding scholarship on non-profit organizations, there are scarcities in donations and other funding. Thus, for these non-profit organizations, competences still result in comparative advantages; comparative advantages, in turn, result in superior performance; and lastly, superior performance is typically rewarded with greater allocation of scarce donations. Regarding scholarship on networks, there are many hybrid forms of governance to select among, and networks compete with other networks. Regarding scholarship on educational communities and settings, universities compete on publications, student ratings, administrative functioning, and other factors. For example, Webster (2005) states that marketing thought leaders have recognized slowing progress due, in part, to what we summarize as triangulated isomorphism.

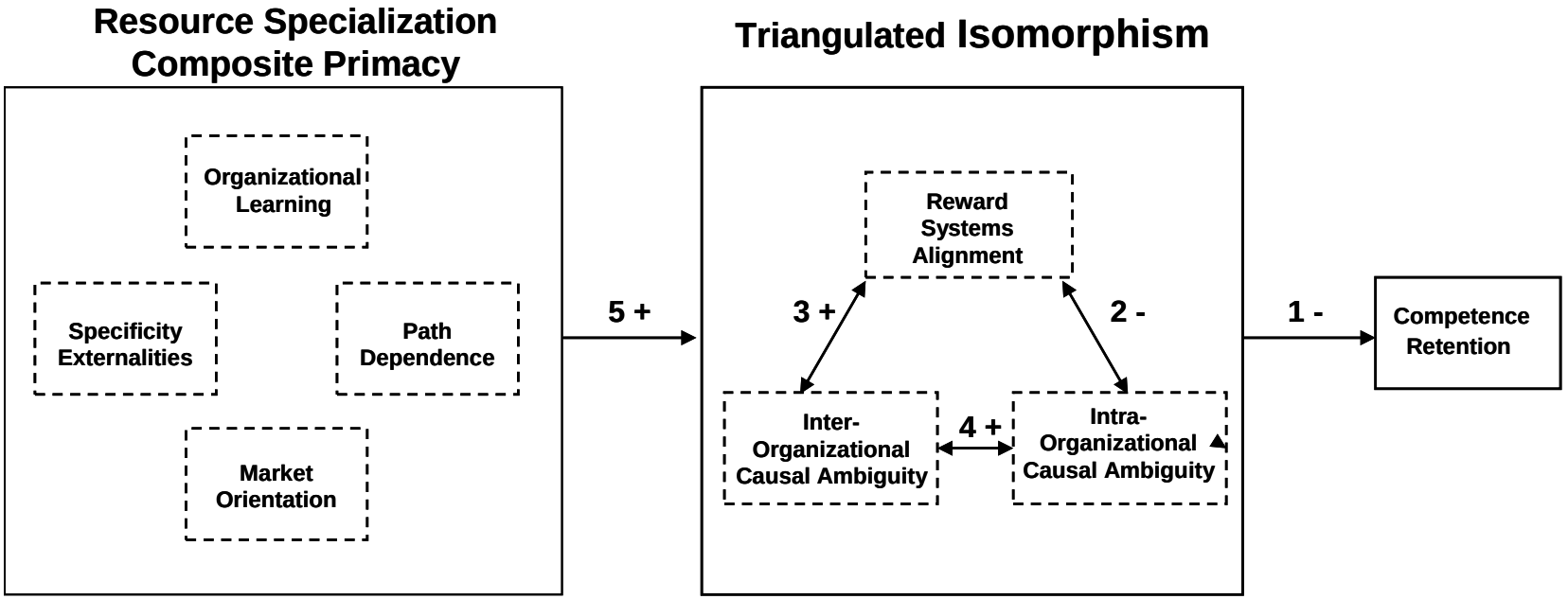
We acknowledge that this model may be improved upon by the addition of other logics and investigation of the resource specialization primacy composite. Our model could be empirically tested using Structural Equation Modeling (Bagozzi 1980) that measures latent constructs. Recent advances in Lisrel and other software now permit Bayesian simulations that can use Monte Carlo chain analysis to model the recursive paths in the triangulated isomorphism construct using seed values from the beta coefficients of relational effects in prior literature. Further, we recognize that some constructs may require measures that are more difficult to obtain in current survey research methodology because, consist with its label, triangulated isomorphism requires collecting data about or from three sources. We propose that intra-organizational casual ambiguity should be measured by interviewing multiple individuals within the organization to gauge how much “silo” mentality exists regarding the path dependencies and individual resource benefit externalities. Further, we propose that inter-organizational causal ambiguity should be

measured by surveying multiple individuals from competitors, or at least industry analysts, in order to ascertain how much external competitors comprehend the competences of a particular organization. In essence, the research would need to be performed at the industry or network level. Also, executive compensation data would need to be acquired from either surveys of senior management or public filings.

Implications for Practitioners and Society

We believe that the reduction of triangulated isomorphism by organizations will result in improved competence retention, leading to evolving comparative advantages. Additionally, companies are legally situated in broader settings. Each of these settings has competitors and, resultantly, each setting can possess a comparative (dis)advantage. Thus, for scholars and public policy practitioners interested in macromarketing, we assert that the triangulated isomorphism within organizations could decrease the competitive advantage of nations. Therefore, we propose that the application of competence retention and the reduction of triangulated isomorphism should not be limited to organizational studies, as these constructs, likewise, occur at the network and societal level.

FIGURE 1
A Conceptual Framework for Competence Retention



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