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Marketing's Responsibility for the Value of the Enterprise

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Report Summary

The manner in which marketing has been perceived as contributing to customer value and the value of the firm has had a profound effect on marketing practice and theory development. During the industrial revolution, when the firm was viewed as a machine, marketing was thought of as producing utilities that added value to products. By the mid-20th century the firm had evolved into a multi-functional and often multi-divisional organization. The organization needed to do more than "produce"; it needed to be customer-oriented in order to offer a more competitively compelling "value proposition."

Today, authors Lusch and Webster suggest, marketing is reconceptualized as management practice in new organizational forms that are dramatically different than the traditional, bureaucratic, functional, self-contained corporate forms. The firm is understood as a complex network mechanism linking customer value and the value of the firm for all of its stakeholders. The microprocessor, the capture and capitalization of the electromagnetic spectrum, and the emergence of the Internet fostered the communications and computation revolution that provided the infrastructure for this network economy.

Marketing practice and thought in a network-centric economy must recognize two central tenets about the value of the enterprise. First, the value of the enterprise is broader than value for stakeholders or "market value," defined as the number of shares outstanding times the price of the firm's stock. Firms in a market-based economy are part of an institutional structure that supports society. This became evident in 2008-09 when stakeholders harmed by firms' bankruptcy included employees, suppliers, local and regional communities, government, competitors, and society.

Second, the value of the enterprise—that is, the sum of the value derived from the firm by all of the stakeholders—is rooted in value realized by customers as a result of market exchanges. All economic value traces back to value creation customer/firm relationships.

The original marketing concept saw marketing as the advocate within the firm for customers; this new view sees marketing as an advocate for the consumer with all resource providers within the networked enterprise. Within this economy, stakeholders of all kinds are involved in an active search for better ways to co-create value with customers and other stakeholders.

To guide marketing in operating more effectively in a network economy, the authors suggest a managerial framework that has learning at its core. Importantly, the new framework does not destroy the old framework of analysis, planning, implementation, and control, but allows the old processes to be improved and made more relevant to the networked organization.

> *Analysis* is made more complete by *sensing*. No longer is the firm separate from the environment; it is integrated with the environment by networked relationships, economic globalization, and information technology. Sensing must be "stakeholder back," that is, leaders, managers, and employees need to start with sensing the lived experience and practices of the stakeholders.

Planning is made more effective by *resourcing*, which deals with creating and integrating resources and removing resistances to their creation and integration.

Implementation, which implies again a separation between the firm and the environment, is supplemented by *realizing*, the design of organizational processes for working together to realize value. This is accomplished by co-producing and co-creating value with customers, suppliers, and other stakeholders.

Finally, *control* is integrated with *learning* using new knowledge to control the enterprise and direct it toward goal achievement. Results help to teach us what works and doesn't work. Control becomes a learning loop that recognizes the complex adaptive nature of value networks.

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Introduction

Marketing has been often characterized as transitioning from a production orientation to a sales orientation to a customer orientation (Keith 1960; McKitterick 1957; Webster 2005). This characterization of orientations is implicitly based on the evolution of marketing practice in industrial or manufacturing firms during the first half of the 20th century. Although this offers an insightful and intuitively appealing perspective on the evolution of marketing practice, commonly discussed in introductory marketing courses and executive education as part of marketing folklore, it is nonetheless a limited perspective on how marketing thought has viewed marketing's value contribution to the firm, customer, and society and how it has changed over the last century. This transformation is continuing as both marketing theory and practice evolve.

We begin our analysis with a review of the evolution of the concept of value as it relates to marketing activity. The newly developed understanding of value as co-created (Prahalad and Ramaswamy 2004a,b; Vargo and Lusch 2004, 2008) by users of products and services in their interactions with networks of interdependent resource-providing stakeholders is positioned in the context of a focal firm embedded in an organizational network. As the locus of marketplace control has shifted from individual firms to consumers and resellers, traditional hierarchical bureaucratic organizational forms, guided by command and control systems, have become increasingly obsolete. The old view of marketing as a distinct and separate management function has given way to a new understanding of marketing as a general management responsibility and organizational competence for guiding the entire network enterprise for the benefit of all stakeholders, not just the firm's owners. We end by outlining a new model of marketing as an organizational competence for guiding processes of sensing, resourcing, realizing, and learning about customers and markets and for creating value propositions that unite stakeholders in co-creating value and increasing the value of the enterprise as a whole. Marketing is seen as the essential link of strategy and organization between customers and the other stakeholders.

Looking back over the development of marketing thought, it can be viewed as embracing three quite different philosophical perspectives on marketing's value-contributing role, which can be characterized as "Three Eras." (See Table 1, following References, for a summary of the major distinctions over the three eras.) Briefly, the transition has been from: (1) viewing marketing as a business function that produces utility or value through the performance of production, distribution, and selling functions, to (2) defining marketing as a business function that is customer- and market-oriented in order to help the enterprise offer more competitively compelling value propositions and enhance firm value, to (3) a realization that marketing is no longer simply a separate business function but also a general management responsibility within a broad network enterprise. In this new view, marketing helps the firm co-create value propositions with all stakeholders so as to integrate resources for customer need-fulfillment and need-satisfaction. This perspective views marketing as orchestrating the co-creation of value with all stakeholders, to enhance the total value of the enterprise – not just the focal firm but all of the resource providers organized around it in a network for value creation.

The industrial revolution and its accompanying marketing roots in a manufacturing- and goods-dominant world have cast a long shadow on marketing thought and practice (Vargo and Lusch 2004). Marketing as a utility-creating and hence value-adding activity was the dominant mode of marketing thought and practice until the 1950s. In the 1950s, marketing increased its focus on customer needs, benefits, and satisfaction, slowly moving away from a transactional to a relational focus that became quite dominant by the 1980's (Gronroos 1994; Gummesson 1987).

Marketing was no longer viewed as a value-*adding* activity but a value-*proposing* activity directed at building long-term customer relationships.

Most recently, marketing thought and practice have been influenced by the recognition by many firms that the most valuable economic resource is codified information and knowledge, not land, labor, or capital, the traditional factors of production (Bell 1973; Drucker 1999, esp. Ch. 4; Haeckel 1999). Relevant knowledge does not reside exclusively in the firm but within a network of social and economic actors that the enterprise cannot manage using the traditional tools of hierarchy, authority, command, control and explicit contracts. More and more enterprises have recognized that collaboration, dialogue, transparency, and co-creation are central to success. This latest evolutionary step in marketing thought recognizes that firms are not just value-adders or value-proposers but co-creators of value with all stakeholders, with the customer being paramount because the customer, among all stakeholders, is the only one that returns cash to the enterprise. Marketing's responsibility for customer information, understanding, and advocacy must extend beyond the firm into the total networked enterprise.

Era I: Marketing as Utility-Creating and Value-Adding

Marketing as a distinct management function emerged in manufacturing firms during the early 20th century and was typically identified as a separate department in a hierarchical, bureaucratic, multidivisional organization. Many innovations stimulated the rapid growth of manufacturing but of central importance were the railroad, the motor vehicle, the assembly line, standardized parts, mass media, and scientific management. Together, these technologies enabled production of large quantities of standardized products in large operations often far from most customers and shipped by rail or truck to pass through wholesale and retail intermediaries and delivered to distant customers at attractive prices.

Utility embedded in the product form by the manufacturer was the dominant concept of value. Marketing was often criticized as adding unnecessary costs. In defense, Weld (1916), an economist who was interested in the study of marketing, viewed marketing as a production function. In the factory form utility was created, and in distribution (marketing) time, place, and possession utility were created (Shaw 1912; Weld 1916). Early marketers embraced this concept and used it in defense of the role of marketing in enhancing value for the customer and society. In fact, the economic spread between manufacturing costs and price to the customer became known as "value added" (Hollander 1961). By spending money on marketing activities, marketing was creating value, not just adding cost.

The logic of the firm as a producer of value in manufacturing, distribution, and marketing established a mindset that the firm and the customer were distinct and autonomous. The firm and customer would meet in the marketplace to exchange value or extract value from each other. Value thus came to be largely identified with value-in-exchange or the price paid by the customer and received by the firm, a view consistent with the neoclassical economic model (Vargo and Lusch 2004). If the firm could sell a high number of units, perhaps by reducing prices, and thereby reduce average cost per unit, it could begin to move toward profit maximization as long as marginal revenue exceeded marginal cost. Marketing's major responsibility was seen as that of stimulating demand for the firm's productive resources through product, pricing, promotion, and distribution strategies (Davis 1961; McCarthy 1960). The key to lower production costs was efficient operations, facilitated by mass production and standardization, with the objective of meeting the needs of the "average" customer. However, as a consequence, few customers had their specific needs ideally met. Nonetheless, customers were attracted to these standardized and less-than-ideal product offerings because: (1) prices were relatively low due to low production costs brought about by mass-production technologies, (2) products were available at the time and place needed as transportation infrastructure improved and increasingly efficient mass merchandising and chain store retailing grew in prominence, and (3) the mass media facilitated the development of brand images which further convinced customers that the standardized, mass-produced, attractively-priced products would adequately satisfy their needs.

In this product-centric, cost-minimizing view of the business, the customer was exogenous and seldom part of the firm's planning efforts. Because the pace of change was relatively slow compared to what is experienced in the 21st century, planning relatively far into the future was possible. The perspective was that there were large untapped markets to serve and customer needs to meet and thus one could plan on customers being "out there" to purchase the offering if delivered at the right time and place with attractive credit terms of exchange to enable possession. Markets could be created, not just served.

Being customer-oriented or making value propositions was not foremost in the management mindset because both the firm and customer were being served by voluntary exchange in the marketplace where price or value-in-exchange was the coordinating mechanism for resource allocation and value extraction. Value was embedded in the market offering and the costs of production, distribution, and marketing were adding value. The fact that this logic stood the test of time is indicated by Porter's (1985) concept of "value chains" as linear sequences of firms that perform functions that incur costs and enhance the value of the product.

An early indication that distribution and marketing costs may not be valuable from a customer or society perspective occurred during the economically-depressed 1930's, when sentiment developed among the public, journalists, many scholars, and public policy officials that value was created in production and distribution, while marketing, seen primarily as selling and other forms of promotion, added waste (unnecessary cost) to the economy. Reinforcing this perspective was a study conducted during the 1930's, "Does Distribution Cost Too Much?" (Stewart and Dewhurst 1939). The authors open with the following:

> The idea that it costs too much to distribute goods and that modern methods of distribution are wasteful and inefficient has taken root in the public mind. Every day the consumer is exposed to sights and sounds which seem to confirm this impression---the spectacle of four gasoline stations, one on each corner of a crossroads, the constant bombardment of costly radio programs selling everything from cigarettes to pianos, and the frequent complaint of the farmer who gets only four or five cents of the fifteen cents we pay for a quart of milk. (1939/1976, p.3)

Clearly, many did not buy the argument that spending money on marketing and distribution is truly "value added". It was becoming increasingly clear that the "value added" notion was a very firm-centric orientation.

Era II: Marketing as Customer-Oriented and Value-Proposing

Peter F. Drucker (1954) can probably be credited as the creator of the so-called "marketing concept" as a management philosophy built around customer-orientation, although it was briefly discussed in a General Electric annual report in 1952. Drucker envisioned marketing as the whole business seen from the customer's point of view. His essential premise was that the firm should put the customer at the core of all its activities and that the fundamental purpose of the business was to create a satisfied customer, with profit as a reward, not the goal itself. Drucker stated explicitly that every firm had only two basic functions – marketing and innovation, which he called the "entrepreneurial functions." Drucker also emphasized that marketing is a very different activity from selling. He attempted to focus the firm on how the customer views and values the firm's offerings, not how the firm viewed its product offering: "What the business thinks it produces is not of first importance…. What the customer thinks he is buying, what he considers 'value,' is decisive -- it determines what a business is, what it produces and whether it will prosper (Drucker 1954, p. 37)." By the late 1950's, customer focus became a central tenet of marketing management.

Concurrently, advertising began to move from a focus on product attributes and features and toward how customers would benefit. The basic idea was that firms do not sell products but a bundle of benefits. The concept that emerged is quite similar to what became known as a value proposition a few decades later but it was referred to as the Unique Selling Proposition (USP) (Reeves 1961), a term coined by the Ted Bates & Company advertising agency. Essentially the USP says to the customer "if you purchase this offering then here are the promised benefits uniquely available from it."

As customer orientation became more salient, and productive capacity continued to grow, firms also had to pay increased attention to competitive forces. The concept of the USP called for increased focus on what the firm could *uniquely* offer relative to its competition. Although it is relatively easy to copy or replicate competitors' functional benefits, it becomes more difficult to copy or replicate the non-functional or symbolic benefits a brand offers. As Levy (1959) persuasively argued, the customer was increasingly purchasing not only functional benefits but intangible benefits and the symbolic nature of a brand and its meaning in terms of lifestyle to the customer. Products and brands became increasingly characterized by these non-functional benefits, their symbolism and meaning as an increasing source of value.

Relatively quickly marketing thought as reflected in college textbooks and scholarly writings, but not necessarily marketing practice, moved away from viewing marketing as the performance of a set of functions that added value. In its place emerged the idea of mixing together ingredients that would result in a unique market offering to the customer and in tune with their needs. Variations on the concept of the "marketing mix" (Borden 1964, McCarthy 1960) consisting of products, prices, promotion, and distribution (place), the so-called "4 Ps," became the universally accepted way of thinking about marketing decisions focused on making a competitively compelling offer to the customer.

Over a quarter century after the introduction of the marketing concept, unique selling proposition, and brands as symbols, each with their strong focus on being market- and customer-oriented, many firms still remained focused on production and had trouble implementing these concepts. McKinsey & Company began in the early 1980's to use the concept of a *value proposition* to help enterprises become more market-focused (Frow and Payne forthcoming), as put forth in a McKinsey Staff Paper (Lanning and Michaels 1988) for internal use, and further developed by Lanning and Phillips (1992). However, it was not until a decade later that a detailed discussion of value propositions became available (Frow and Payne forthcoming). Importantly, the concept of a value proposition is very central to Hunt and Morgan's (1994) resource advantage theory of competition, Webster's (1994) value-delivery concept of strategy, and the service-dominant logic of marketing (Vargo and Lusch 2004, 2008).

Profits, strategic planning, and the marketing concept

While Peter Drucker was advocating putting the customer's interest first, with profit as a reward for doing so, others were arguing for a view of business strategy that focused on the central importance of shareholders. The fundamental argument was that financial control over the allocation of resources among business opportunities (products and markets) was the only meaningful way to direct businesses that had grown too large to be controlled by their owners. Although Drucker had attempted to make the general case for customer need-satisfaction being the ultimate determinant of long-term profitability, this assertion did not easily translate into specific strategic directions or organizational processes to guide management action.

While the emergence of the marketing concept was a proposal for enhancing the long-term financial performance of the firm, there were other causes for increased management attention to financial measures of business performance. These forces came together in the form of various approaches to long-range strategic planning, with an emphasis on financial goals guiding individual business units and the overall organization. Financial goals often took the form of financial ratios that were part of the DuPont Model of Financial Performance, developed by Pierre S. DuPont who was President of General Motors from 1920-1923, and Donaldson Brown who moved to General Motors from DuPont in 1921 (Sloan 1964). Incidentally, Mr. Brown began his career in sales at DuPont but early on demonstrated his knowledge and acumen for finance. The DuPont approach became more generally known as the capital budgeting model. Capital budgeting broadened into the more general practice of strategic planning, focusing on achieving objectives for external competitive market strength and internal efficiency with financial measures to support them (Ansoff 1965). As Sloan noted (Sloan 1964), at General Motors return on investment became a major if not primary strategic goal of the enterprise.

One tool of strategic management, reflecting the structure of multi-divisional organizations, that became popular in the 1970s was product portfolio models placing strategic business units in a 2 X 2 matrix of growth (more or less than 10 percent) and market share (divided by competitors' market share) as a guide to the allocation of financial resources to various business opportunities (Henderson 1983). Such models implicitly defined markets as sets of competitors instead of customers. The focus on competitors became reinforced by the rising importance given to unit sales and price per unit. Very simply, price multiplied by quantity equals total sales or the top line of the firm's income statement and one of the key elements of the firm's net profit margin. Although competitors may not know each other's cost structure they generally know the price and unit volume of competitors and consequently their market share and that of competitors.

Quickly the focus of strategic management became market growth rate, market share, average unit price, units sold, and cost control. Thus as marketing was trying to break away from a production orientation and become more customer-focused, financial tools and controls encouraged a short-term performance focus, heavily oriented toward competitors, production volume, and low costs. To obtain volume forecasts, many firms would seek input from the sales department that tended to be optimistic. Because the firm was trying to compete on market share, plans would also tend to be optimistic. If too much was produced then at least the unit costs would be low and the firm could push the product through aggressive promotion and price discounts.

Another indirect consequence of this emphasis on formal strategic planning and business portfolio models was an inevitable elevation of the interests of shareholders above those of the other stakeholders of the firm. Those other stakeholders (Donaldson and Preston 1995) include employees, managers, suppliers, resellers, technology partners, creditors, government, the host community, the public-at-large, and most importantly *customers*. By the 1990's it was widely agreed that management attention had become more sharply focused on responsibility for increasing the value of the firm for shareholders as measured by quarterly earnings per share, a number frequently forecasted and announced to eager observers in the financial services industries. Management lived or died according to its ability to meet or exceed the expectations thus created. The net result has been unfortunate emphasis on short-term measures of business performance relative to long-term measures of firm value and its antecedents such as innovation, management and employee development, revenue growth, customer loyalty, brand equity, reseller support, and sustainable return on assets.

Market orientation and business performance

Despite the challenges in implementing the marketing concept, there is now a growing body of evidence that when firms do in fact follow the dictates of the marketing concept, business performance is positively affected. One meta-analysis found that market orientation, although it might require higher operating costs, provides benefits of higher revenues that yield higher profitability (Cano *et al.* 2004). This study also suggested that positive effects might be somewhat stronger in manufacturing firms than in service providers, perhaps because marketing orientation can be a *distinctive* source of differentiation and competitive advantage for manufacturers whereas it may be more common in service firms that are often, by definition, "closer to the customer" with less variance across service firms in their market orientation.

Another meta-analysis of several hundred studies concluded that the results of market orientation have been shown to include improved profit, market share, and overall business performance; improvements in quality, customer loyalty, and customer satisfaction; more innovativeness and better new product performance; and positive organizational consequences including employee commitment, customer orientation, team spirit, and job satisfaction as well as reduced role conflict (Kirca *et al.* 2005).

A multinational study of the impact of customer orientation and organizational culture on business performance found evidence that customer orientation *per se* did not have a direct effect on business performance. However, a market-focused organizational culture that emphasized competitiveness and market superiority or one grounded in innovation and entrepreneurial thinking was both more effective than those that were internally focused on such attributes as teamwork and cohesiveness or order, rules, and regulations. The most significant influence on business performance was innovativeness. The most effective organizations were externally focused and flexible in their response to a changing market environment (Deshpandé, Farley, and Webster 2000). Customer orientation can only be effective in a flexible, responsive organization. This provides empirical support for the argument that traditional command and control structures in hierarchical bureaucratic organization models are increasingly obsolete in today's dynamic, hypercompetitive global markets.

If market orientation results in higher customer satisfaction and enhanced enterprise financial performance as the available empirical evidence suggests then why, as suggested by recent research, is marketing losing influence in the firm? If marketing is helping to deliver superior firm performance while satisfying customers then should it not be rising in influence in the organization?

Studies of the position and influence of the marketing function within the organization first appeared in the 1960s and have continued with increasing frequency up to the present. Early studies of the extent to which firms had implemented the marketing concept suggested that actual practice often fell short of expressed values and intentions, with best practice typically found in larger companies and in consumer, not industrial, firms (Hise 1965; McNamara 1972; Webster 1981, 1988). A strong marketing function, organized as a separate department in a traditional hierarchical, functional organization, did not always equate with strong customer orientation. More recent studies suggest that, as organization forms have evolved, there is little correlation between the size and strength of a separate marketing department and the strength of customer focus and market orientation within the firm.

Organizational variables and marketing effectiveness

The practice of marketing in the organization and the role of marketing within the firm vary widely. One survey of a sample of U.S. and German firms concluded that the marketing sub-unit continues to have a major influence but that the nature of that influence depends upon specific company and market factors, including market growth rate, the company's strategy of differentiation, frequency of change in the marketplace, technological turbulence, and the nature of interactions among organizational actors within teams (Homburg, Workman, and Krohmer 1999). Another important study found that the role of marketing in the firm has two parts – the general market- and customer-orientation of the firm, which can be thought of as organizational culture (as proposed by Deshpandé and Webster 1989), and the specific role of the marketing function/department (Moorman and Rust 1999). A general conclusion from the latter study was that the influence of the marketing function *per se* depends upon the presence of an organization-wide market orientation (as proposed by the original marketing concept) that facilitates effective interaction between customers and the key value-delivery processes within the firm. Specific organizational processes studied were those that connected customers with (1) the product, (2) service delivery, and (3) financial accountability. Each of these linkages with marketing was found to influence the perceived value of marketing within the organization and on business performance. That impact was essentially a function of the knowledge and skills provided by the marketing function (Moorman and Rust 1999).

The Moorman and Rust study provides strong evidence that *organizational* variables in the implementation of marketing strategy are an essential part of marketing effectiveness and business performance. The significance of this insight cannot be over-estimated and points to the need and opportunity to revise our traditional concepts of marketing management and customer orientation. The relationship of marketing to the value of the firm must be understood in terms of its linkages to all stakeholders, not just customers, through its relationships with organizational roles that serve the specific interests of those other stakeholders.

Era III: Marketing in Network Organizations

As our understanding of marketing evolves into Era III, as stakeholder-unifying and value-co-creating, it is critically important to re-conceptualize marketing as management practice in the new organizational forms that are dramatically different from the traditional, bureaucratic, functional, self-contained corporate form. The firm must be understood as a complex network mechanism linking customer value and the value of the firm for all of its stakeholders. Marketing can be more effectively researched and managed in the context of its intra-firm and its networked organizational relationships, not just customer relationships external to the firm (accepting, only for the moment, the traditional view that customers are "external" to the firm).

The organizational aspects of marketing, as opposed to its analytical sophistication and its contributions to strategy formulation, have tended to be ignored in both theory and practice. Moorman and Rust (1999) suggested that marketing's limited influence within some firms might be related to its tendency to focus on the customer-product connection and product-related processes with relatively less emphasis on service delivery and financial accountability, a finding consistent with the frequent arguments in the marketing literature about the superiority of a service-and-customer-centric vs. product-centric orientation. Financial accountability must also be broadened to include all stakeholders, with an emphasis on cash flow, in contrast to the narrow focus on return-on-investment, with its exclusive concern for the welfare of shareholders.

A central feature of the network economy and the transformed organizational environment is the ascendance of information technology and the emphasis on knowledge (not land and labor) as the prime resource for competitive advantage (Drucker 1993; Achrol and Kotler 1999; Lusch, Vargo, O'Brien 2007). The microprocessor, capture and capitalization of the electromagnetic spectrum, and the emergence of the Internet fostered a communications and computation revolution that provided the essential infrastructure for a network economy. Among the effects most impacting on marketing have been: (1) customers and suppliers spread over wide geographic areas interact directly via computers and the Internet, reducing the need to transport since digital offerings could be delivered through telecommunications; (2) customers have adopted more self-service technologies; (3) tangible goods become "smarter" as they became embedded with computers; (4) business models, customer relations, and financial performance of the enterprise can be more easily and widely analyzed on distributed (not centralized) computational machines; and (5) the costs of coordinating business functions (tasks and activities) are lowered. With the increased transparency brought about by this information and communications revolution, non-customer and non-shareholder stakeholders of the enterprise can express more clearly their value “stake” in the enterprise. Not only can the enterprise more easily connect directly with customers but, even more importantly, customers can communicate directly with each other and more generally all stakeholders can communicate with the firm and other stakeholders.

Value in a network context

Marketing practice and thought in a network-centric economy should recognize two central tenets about the value of the enterprise. First, the value of the enterprise is broader than value for shareholders or "market value," defined as the number of shares outstanding times the price of the firm's stock. Firms in a market-based economy are part of an institutional structure that supports society or the commonwealth and hence legitimizes and supports the firm or corporation. The enterprise is much broader than the firm as narrowly conceived in traditional economic theory.

This became especially evident in 2008-2009 when a wave of firms teetering on bankruptcy was viewed by government and much of the citizenry as a resource that was not the sole property of the shareholders. Stakeholders being harmed when a firm fails include employees, suppliers, local and regional communities, government, competitors, and society. These effects were widely discussed concerning the bankruptcy of General Motors, the birthplace of the fundamental premise that ROI and earnings-per-share must be dominant measures of business performance.

Second, the value of the enterprise, the sum of the value derived from the firm by all of the stakeholders, is rooted in value realized by customers as a result of market exchanges. All economic value traces back to value creation in customer/firm relationships. This occurs because only the customer brings the cash into the firm that is necessary to sustain relationships with all the other stakeholders. Although some (Bhattacharya and Korschun 2008) have suggested firms should measure their societal impact by assessing the impact their programs and operations have on the quality of life of stakeholders, and we do not necessarily disagree, we suggest an initial step is to understand cash flow as a measure of the firm's economic impact on stakeholders.

Recently there has been increased attention in the marketing literature to the importance of cash flow and volatility of cash flow as key marketing performance metrics (Ambler 2006; Srivastava, Shervani, and Fahey 1997, 1998; Rao and Bharadwaj 2008). Using cash flow as a measure of performance shifts attention away from return-on-investment and its exclusive concern for the economic benefits the firm provides for its owners. Most of the stakeholders of the firm are either its resource providers or the government. The firm can be viewed as the customer's agent in negotiating with these resource providers for the resources it needs to integrate to best serve the customer. Achrol and Kotler (1999) envisage networks emerging that optimize customer opportunity by integrating and coordinating suppliers worldwide to serve the customer and suggest that marketing may reach its highest level of development as a "customer consulting" function.

The original marketing concept saw marketing as the advocate *within the firm* for customers; the new view in the Third Era sees marketing as an advocate for the customer with all resource providers *within the networked enterprise,* going beyond the boundaries of the firm as a legal entity. Within the network economy, stakeholders of all kinds are involved in an active search for better ways to co-create value with customers and other stakeholders (Christopher, Payne and Ballantyne 2002; Frow and Payne forthcoming). Firms are evolving from largely self-contained hierarchical bureaucracies into complex networks of relationships with resource providers of all kinds (Achrol and Kotler 1999). Firms seek to focus more clearly on their own distinctive competencies as sources of competitive advantage while relying more heavily for adaptive, collaborative advantage on strategic partners to provide their distinctive competencies as components of the product/service offering. While the focal firm retains primary responsibility for its customer relationships, it positions itself more precisely in the value network of the total enterprise. Marketing's role within the network enterprise of necessity must change as well (Webster 1992).

Marketing's Role in Implementing a Stakeholder-Unifying Co-Creation Philosophy

Marketing is emerging as performing a broader role in the management of the enterprise in guiding all business processes that are involved in the co-creation of value with customers. As the familiar saying goes, "Marketing is too important to be left to the marketing people." Customer orientation has become a dominant business philosophy in the corporate cultures of successful firms as management comes to understand that the welfare of all of the firm's stakeholders, including but not limited to its owners, has its roots in customer need satisfaction. Consequently, the rewards to the enterprise for co-creating customer value must ultimately be shared among all of the stakeholders. Understanding customers and how the enterprise fits into their value creating processes, and communicating that understanding to the other resource-providing stakeholders becomes the primary role of marketing. In the recent past, evidence suggests that marketing in many firms has been relegated to managing communications and branding activities (Verhoef and Leeflang 2009; Webster *et al.* 2005). The emerging Third Era of marketing requires that marketing must have clear organizational linkages to facilitate two-way information flow with all stakeholders. These organizational contacts would include operations (employees and customers), procurement (supplier partners), R&D (technology partners), human resources (employees and management), investor relations (shareholders), accounting and finance (shareholders, banks and other debt providers, and regulators), distribution management (resellers and user-customers), and field sales management. Marketing must be more than demand stimulation; it must be a general management responsibility.

While it would be presumptuous and premature to propose a complete new marketing framework or theory at this stage, we can offer a line of thinking leading in that direction. In our view, marketing management is the leadership function in the organization that designs and guides organizational processes for sensing, resourcing, realizing, and learning from the changing market environment and all of the stakeholders that are critical providers of resources that are part of this environment, supplementing the traditional bureaucratic view of management as analysis, planning, implementation, and control. Instead of a system of command and control, that only makes sense within the boundaries of a bureaucratic, hierarchical organization, we assume an organization that is a network of partnerships with resource providers of all kinds, governed by multiple forms of contractual relationships with stakeholders, some internal to the legal entity called the firm and others external to it. Analysis, planning, and control are still important within the boundaries of the formal organizations of individual firms and their partners, but robust processes of communication, coordination, and cooperation guide the interactions among stakeholders within the network. Management attention gets re-focused on customers and business partners outside the firm, not within its boundaries.

Organization as strategy – marketing as management competence

We integrate business strategy formulation and implementation in a view of organizational functioning that sees organizational structure broadly defined, and, most basically, *the role of marketing within the organization*, as the essence of strategy. We modify Chandler's dictum that "structure follows strategy" (Chandler 1962) to argue that structure *is* strategy, as also proposed by Haeckel's concept of the "Adaptive Enterprise (1999), and the central importance of customers. A similar view of the link between strategy and organization was expressed by Drucker (1993) when he noted that the primary resource of the organization in "post-capitalist" society is knowledge and the primary resource of the society is organization. Our view accepts the fundamental value premise as first articulated by Drucker (1954) that the purpose of the business is to create a satisfied customer and that the long-term value of the firm is optimized by maintaining customer orientation as the core belief in the organizational culture. Marketing's fundamental role and responsibility is to develop organizational understanding of the customer's dynamic conception of value, with marketing management competence centered in the web of stakeholder relationships. Organization structure and functioning is obviously the central mechanism for implementing marketing and business strategy.

Drucker's premise of the primacy of customer interest makes even more sense now than it did when put forth in the middle of the last century because market power and the locus of control have shifted from the firm to communities of consumers and the businesses that serve them directly such as retailers and internet-based service providers, facilitated by global commercial networks and information systems. Consumers are increasingly influenced by social networks and media no longer controlled by marketers, who no longer exclusively control brand image and meaning. Consumer-to-consumer networks can rebut and reject marketer-originated messages and marketing methods, even going so far as to generate conflicting messages that can challenge and even destroy the marketer's strategy. Marketers are increasingly required to participate with, not just observe, the customer in developing all elements of marketing strategy.

Marketing as a learning, communication, and coordination process

Clearly signaling that marketing has entered a new era, with a strong emphasis on organization and stakeholder relationships as the essence of marketing, is the American Marketing Association's (2007) new definition:

> *Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*

Although it is not explicitly mentioned, this definition also implies that value propositions must relate to all stakeholders. We therefore offer an expanded definition building on that of the AMA and centered on customer value and problem solving, but with an emphasis on marketing as a management leadership responsibility linked with all of the other customer-value-creation processes both within the firm and with customers:

> *Marketing is a managerial process*[1] *that keeps all of the network's market-based processes accurately and expertly focused on evolving customer needs and guides the allocation of human, financial, physical, technical, and other resources to creating customer-defined value and perceived customer benefit and need satisfaction, toward the ultimate goal of improving the value of the enterprise for all its stakeholders.*

We define *market-based* processes to include:

- market-back, market-sensing information processes (*cf.* Day 1994)
- intra-organizational, customer-linking processes (innovation, production, logistics, credit arrangements, etc.) in the co-creation of value with customers (*Ibid.*),
- customer-relationship-management processes, both inter-personal and logistical, including personal selling and logistics,
- customer-communication processes including branding, advertising, sales promotion, dialogue and conversation and other forms of communication
- resource-attracting activities including procurement and technology partnering but not excluding resources provided by other stakeholders
- value-in-exchange or cash generation (payment systems)

A Value Co-Creation Concept of Strategy and Organization

The preceding sets the stage for offering a value co-creation concept of strategy that is integrated with an expanded concept of marketing organization. Value is not created by the business but by customers as they integrate resources (Vargo and Lusch 2008) that not only include firm-supplied resources but other resources at their disposal in order to improve their well-being by helping them solve problems and satisfy needs. To be truly customer-centric the firm has to think, not about optimizing the firm and its activities, but how to support customers in their resource integration and value co-creation activities. Stated alternatively, the organization is an efficient support system for helping all stakeholders, beginning with the customer, become effective in value co-creation. No longer are customers, suppliers, and other stakeholders exogenous and autonomous; they are co-creators of value through cooperation and coordination with other stakeholders (Frow and Payne forthcoming) in the customer-centric network. Understanding this interdependence and interaction is the essence of customer orientation as a management philosophy in a network economy.

The key concepts in the value co-creation concept of strategy and organization are *core competencies and dynamic capabilities* used to *co-create value and the relationships with all stakeholders that help to accomplish this.* Value is created when a customer interacts with the resources and capabilities provided by a relationship with their firm/supplier and other providers of resources. Thus, the value can only be co-created by sellers and customers together. A "good" relationship is one that creates value for both parties, and leaves each wanting to continue the relationship in some form. "Good" customers are loyal; "good" suppliers are trusted and reliable and have strong "brands" or reputations.

Value propositions communicate intention throughout the network

Intention and capability to offer value of a particular kind in a particular way is communicated to potential buyers and resource-provider partners with a *value proposition*, an invitation to participate in the process of co-creating value that is superior to competitor offerings. Or as Stephan Haeckel (1999) has suggested with his concepts of the "sense-and-respond" organization, a value proposition is how the enterprise proposes to positively affect the customer; it defines desired *outcomes* (customer experiences), *not outputs* (products). The firm can control its value proposition as a key element of business strategy, but it cannot control the value the customer experiences. Also the firm's value proposition must link itself to all stakeholders who themselves need to see the potential for exchange that results in value propositions being realized. Stakeholders provide resources; value propositions connect the firm to these stakeholders in a meaningful way (Payne and Frow 2008; Frow and Payne forthcoming). It is a marketing responsibility to assure that the firm's value proposition is communicated to, and understood by, the entire network of resource-providing stakeholders.

Customers as a strategic choice

The ability to actually provide the promised value depends upon carefully choosing appropriate potential customers, those with needs and preferences that are understood to be a good match for the resources and capabilities of the firm and its partners. Strategy formulation is essentially a process of matching the networked firm's competencies and capabilities with customer needs and preferences, identifying latent customer demand that is relatively under-served by competitors' value propositions. "Bad" potential customers are those who will not value the firm's resources and capabilities and will therefore be unwilling to provide reciprocal resources or service[2] in their interactions with the marketer enterprise.

Only when value has been co-created in the interaction between a supplier and a buyer can a firm receive back from the buyer resources that increase the value of the total enterprise for the firm and its stakeholders and hence improve the longer term viability of the enterprise's network. This reciprocal resource exchange can have many forms or dimensions including monetary payments, productive capabilities, knowledge transfer, the potential for future income streams, favorable word-of-mouth to other potential customers, linkages to other potential strategic partners, and enhanced credibility for all stakeholders. Each party to the relationship must perceive that their welfare has been enhanced by the exchange relationship if it is to continue. In the case of market offerings that can be monetized (translated into earnings) for the selling firm, the owners or managers of the firm then can decide after required distributions of profits to government (a form of payment to stakeholders) what to do with the increased economic value -- how much to keep and reinvest in resources and capabilities (as payments to resource-providing stakeholders external to the firm) and how much to return as income to the owners, employees, and managers in the form of dividends and other payments.

Value definition is dynamic and learning is critical

It is a fundamental premise of the value co-creation concept of marketing strategy and organization that the customer's definition of value changes continuously. Marketing must be a learning process for both the supplier network organization and the customer (Lusch, Vargo, Tanniru 2010). This underscores the centrality of market-back, market-sensing processes as a key role and responsibility of marketing professionals within the organization. In addition to traditional market research, data-base management, and similar informational activities typically under the direction of market research specialists, all organizational actors with responsibility for any part of a customer-linking or customer-relationship management activity must also be informed about and use knowledge relating to the customer's changing definition of value. Such knowledge includes the customer's definition of the problem they are trying to solve with their buying activity, the nature of personal intra-customer (household or organizational) relationships, the customer's operations relating to use of resources, and so on. Customer insights can be obtained in the normal course of interactions between buyers and sellers or as the objective of specially tailored information gathering and analysis activities. When specialists perform these activities, then intra-organizational communication of results and recommended action steps becomes a key part of marketing management responsibility. Receptivity to such information and insight has to be part of a top-down organizational culture of customer-orientation and value-creation. As in Era II marketing, customer and marketing information are the central management responsibility of marketing in Era III, but the scope of this responsibility now extends beyond the core firm through the networked enterprise with much more two-way communication. Organizational relationships to accomplish this must obviously be specific to the requirements of each unique firm and network.

Toward a New Managerial Framework

Building on the traditional view of marketing as analysis, planning, implementation, and control, our management framework is built around concepts that we call sensing, resourcing, realizing, and learning. These stages need to be focused on each stakeholder and the value proposition that will tie together the enterprise and these stakeholders. The proposed framework is influenced by many but especially by Webster (1992) for his work on organizational culture and networks, Senge (1990) for thought on the learning organization, Vargo and Lusch (2004, 2008) for the service-dominant logic of marketing, and Haeckel (1999) for thought on the adaptive and "sense-and-respond" organization.

We advocate the development of a new managerial framework that has learning at its core. Importantly, the new framework does not destroy the old framework of analysis, planning, implementation, and control, but allows the old processes to be improved and made more relevant to the networked organization.

- *Analysis* is made more complete by *sensing*. No longer is the firm separate from the environment but much more integrated with the environment by networked relationships, economic globalization, and information technology. Sensing must be “stakeholder back.”

Leaders, managers, and employees need to start with sensing the lived experience and practices of the stakeholders.

- *Planning* is made more effective by *resourcing,* which deals with creating and integrating resources and removing resistances to their creation and integration.

- *Implementation*, which implies again a separation between the firm and the environment, is supplemented by *realizing,* the design of organizational processes for working together to realize value. This is accomplished by co-producing and co-creating value with customers, suppliers, and other stakeholders.

- Finally *control* is integrated with *learning* using new knowledge to control the enterprise and direct it toward goal achievement. Results help to teach us what works and doesn't work. Control becomes a learning loop that recognizes the complex adaptive nature of value networks. Each of these four processes is briefly discussed.

Sensing. Analysis is the first step in the traditional marketing management process. Analysis of information is not a distinct stage in decision making but is supplemented by continuous sensing. Sensing occurs by constantly interfacing with customers, employees, suppliers, and other stakeholders to increase understanding of their experiences, practices, needs, and wants. When environmental change was much slower, a firm could take the time to do systematic analysis as a discrete activity and build, implement, and control plans of action, a complex process requiring significant time and effort. However, today customers, suppliers, and the environment are in a constant state of flux and the firm needs a real-time way of being in touch with these changes. Managers need not only to sense this change but have an understanding of the nature and sources of change.

Understanding can be lean (shallow) or rich (deep) and both are needed. For instance, it may be enough to have embedded digital signal processors in products that allow the firm to monitor use of the product and the need for maintenance and thus know when to remind the customer of the need for servicing. However, often a deeper understanding is also useful, for instance, doing ethnographic research to more fully understand why customers do not get their autos serviced when reminded.

Resourcing. Planning, as it is known in traditional terms, that is, deciding today what to do tomorrow and then sticking with it, is made more effective by resourcing. The concept of resources is central to a considerable amount of marketing and management strategy as it has developed over the last quarter century (Day 1990, 1994; Grant 1991; Wernerfelt 1984). Increasingly strategic emphasis is on dynamic and intangible resources that create effects (Vargo and Lusch 2004, 2008) on the more static and tangible resources that were once the focus of manufacturing firms. In Era I of marketing thought much of planning concerned acquiring tangible resources and embedding them with value by transforming them into goods to be supplied to the market at a time and place needed, creating customer utility. Now the focus has shifted to intangible resources, such as information and human ingenuity that transform resources into market offerings that reflect compelling value propositions. The focus on three sub-processes of resource creation (not acquisition), resource integration (not allocation), and resistance removal is what makes this possible and constitutes the whole resourcing process.

A full appreciation of resourcing requires that one forswear the old understanding of resources as physical things. In the new perspective, resources are a function of human appraisal and perception that, by definition always occurs at the interface between actors and resources.[3] Firms can focus their energies either on exploiting and explaining their current competencies to become even better (more efficient or effective) or on developing and promoting new competencies to create market offerings with higher value potential (March 1991).

Another important aspect of resourcing is *resource integration*, a basic organizing function of all social and economic actors (Vargo and Lusch 2008). At the firm level, organizations can be viewed as resource integrators that transform micro-specialized competencies (employee-level skills and knowledge) as well as other internal and market acquired resources into the provision of service (Vargo and Lusch 2004). While resources are not always inherently complementary, they can be made to be complementary through the development of knowledge that allows them to be integrated and developed (Normann 2001, p. 108).

A commonly held assumption in industrial management is that the firm is distinct and separate from the environment (social, competitive, technological, legal, ecological). Consequently, the external environment and the stakeholders that comprise it are seen as a constraint and not a resource. However, because stakeholders have a "stake" in the firm they should be viewed as resources. These stakeholders and the value proposing they are involved in need to be integrated with the other resources of the firm. The stakeholders then become part of the value network and someone to co-create value with.

A final aspect of resourcing is the removal of organizational *resistances*. There are often barriers that must be removed before potential resources can be made useful. Resistances are often intangible such as cultural or social forces. As noted earlier, multi-divisional, multi-functional organizations of the industrial era had a strong hierarchy, were highly bureaucratic, and guided and controlled by inflexible command and control routines. This type of organization is intentionally inflexible and slow in response to a changing environment or in generating technically complex innovations. One of the first to recognize this was Hewlett-Packard, which in the late 1960's pioneered a bottom-up approach to project formation and management where people where empowered and given flexibility to lead self-organized projects. In so doing, HP avoided or removed the bureaucratic resistance and gained advantage over competitive firms faced in their innovation efforts.

Realizing. Implementation is supplemented by the concept of *realizing*. A key problem with implementation is that the very term implies a separation between management and workers, between planning and doing. First a problem or an opportunity is analyzed and a plan developed. Then the leaders publicize the plan and order implementation. Separation of the actor and the entity deciding on the action is a similar problem to that addressed by Haeckel's (1999) notion of sense-and-respond as an alternative to command-and-control.

Realizing, on the other hand, is a concept of collaboration where economic actors are in tune with each other and innovate and improvise to make something happen, each drawing on the experience and knowledge of the other. It occurs when a team realizes their potential and does things without separating thinking from acting. Realizing is therefore co-creating or co-producing both present value and future value. It is done best when sensing and resourcing have been fully developed but we must keep in mind that in the proposed management process there is no separation of sensing, resourcing, realizing and learning; they are only separated here for explanatory purposes.

Realizing can be better achieved if the firm, along with all its stakeholders in the value network, develops *collaborative competence* (Kanter 1994; Lusch, Vargo,and O'Brien 2007). When a firm has collaborative competence it will be better at sensing and understanding. For this reason, dialog (Ballantyne and Varey 2006), which suggests learning together, is a good way of developing collaborative competence and deep understanding.

Realizing is also enhanced by the firm's developing a high *adaptive competence* that enables firms and the value networks they are a part of to regenerate themselves. When a firm moves away from a traditional industrial model where it has to own and control resources to be successful, to a new model where it only needs to have access to resources and the ability to integrate them, then it sees that the relationships it has with the stakeholders in the value network becomes the means to adaptability and flexibility. Everything is organized around the focal firm's value proposition directed at the chosen customer partners with whom value will be co-created. By developing *collaborative competence* the entity is able to use its partner firms as mechanisms for adapting to change brought about by complex and turbulent environments and thus improve its adaptive competence.

Learning. The social and economic actors in the organization and throughout the value network are part of a living system where learning increases knowledge. Knowledge thus is a resource that is able to infinitely grow if the firm embraces learning. In the old industrial model the actual financial results when compared to the planned financial results were a way to control actors and reward or punish them. Financial results below planned levels were not viewed as an important learning event but as a failure event.

In the proposed framework, cash flow, either positive or negative, in the enterprise becomes an important part of a learning loop. But performance is something richer and requires a deeper understanding. The key is getting behind and under the statistics to sense and understand more deeply. Identifying and then suspending assumptions is one way to begin. Another is to look at what is not reported as a performance metric and understanding why and what might be gained by having this metric. For instance, if it is not possible to separate the firm from the value network, then why are we not measuring the economic performance (or other metrics) of our suppliers, customers, employees, government, and other stakeholders that are part of the value network? What can we learn by having this information and understanding it?

Summary

We have suggested that the old view of marketing, centered on a concept of the firm as a hierarchical, bureaucratic, functional organization, is obsolete. Marketing's progress from a product- and company-centered activity to a customer-centered model most appropriate to firms that controlled resources and added utility must be extended into a model that reflects the new reality of global, networked organizations of relationships among multiple stakeholders. The old focus on creating value for customers and giving the rewards primarily to shareholders no longer serves consumers, managers, employees, suppliers, government, or the general public as well as it should. A new model is required that accepts consumer sovereignty, organizational complexity, information-enabled networks, and global partnerships as facts of everyday life.

A new understanding of marketing must combine both "inside-out" and "outside-in" views of the firm. Marketing must go beyond the traditional boundaries of the organization as a self-contained legal entity and move into the world of economic and information networking with customers, resource providers, and other stakeholders, addressing organizational issues, processes, and structure as critical elements of marketing strategy. Marketing competence, in both general management and in marketing specialists, must also take leadership for all processes that bring the voice of the customer, and the customer's dynamic definition of value, into the relationships with all other stakeholders, both inside and outside the core firm's boundaries. Many companies with "voice of the customer" programs still retain a primarily firm-centric focus that should be extended into the broader network enterprise.

We summarize our new view as consisting of four central propositions:

1. Value is co-created with customers; the selection of customers and what the firm co-creates with customers defines the firm as a business entity (as does its legal charter).

2. Stakeholders are linked together with the firm and with one another in an organized network of relationships; these relationships should all be guided by the voice of the customer.

3. Co-created customer value is shared with all other stakeholders primarily through customer-generated cash flow. The welfare of all of the stakeholders, tied to the long-term profitability of the enterprise, is determined by success in co-creating value with customers to generate that cash flow.

4. Marketing management and the firm's general management have a shared responsibility for creating a culture of customer orientation and for developing a customer value proposition and communicating it throughout the network enterprise.

Management Implications

Research shows that, in many firms, the traditional marketing management function has not been very successful in providing the kind of leadership required by the new management environment. Several possible explanations for the limited influence of marketing executives have been suggested, including lack of support from top management, inability to track the financial results of marketing expenditures, and the difficulties of transforming a firm- and product-centric corporate culture into a customer-centric culture.

The preceding discussion of the role of marketing in a network organization suggest that it is essential that marketing be a shared responsibility between marketing management specialists within the firm and the top management team of the organization including the Chief Executive Officer. Together, marketing and general management must advocate for the primacy of customers' interests and take responsibility for developing deep organizational understanding of customers' problems, perceptions, buying behaviors, and changing definition of value.

Marketing management's organizational credibility depends upon its own competence for providing reliable, useful information about customers and markets as well as a good understanding of those parts of the firm with which it interacts, including strategic partners. On the other hand, each member of the organization should have a written job description that includes a specific statement about how that organizational role contributes to the co-creation of customer value. If such a statement cannot be made, there is a good chance that this position needs to be substantially modified or eliminated. Marketing management can take the lead in redefining organizational roles and responsibilities to achieve focus on the customer.

Research Directions

The research possibilities arising from this new understanding of marketing are virtually limitless. Most importantly, they involve studying the linkages between marketing strategy and organization. Academic researchers in marketing have shown limited appetite for the study of marketing organization. However, there have been some interesting attempts to understand relationships between employee satisfaction and customer satisfaction, the dynamics of buyerseller relationships, the relative effectiveness of market- vs. product-centered business units, and strategic partnering with various resource providers

Recently there has been significant attention to the financial impact of marketing expenditures, obviously grounded in the premise of stockholder priority and relatively short-term measures of financial outcomes. We know of no research that has systematically examined the network effects of a core-firm's marketing activities. Researchers might consider reviewing existing studies in their areas of interest and ask how models of marketing processes and relationships underlying their hypotheses and analyses might be expanded into a network organization framework. The best opportunities for new research will probably lie in the area of marketing processes, such as new product development, sales force deployment, channel management, and pricing, where the focus shifts from the traditional optimization of decision variables approach to the perspective of the organization theorist trying to understand and enhance organizational performance. How do managers' information requirements change when the focus shifts to organizational processes and outcomes in terms of customer value instead of outputs such as sales force calls, sales volume, products, and prices?

Another area for new research can be defined by the intersection of traditional marketing research with other areas of general management and management science. Each area of management specialization within the firm, such as human resource management, research and development, and investor relations, would be an opportunity for examining relationships with marketing managers, examining current practice and defining opportunities for improved collaboration. Specific topics for inter-disciplinary cooperation would include the relationships between employee satisfaction and customer satisfaction, credit management and customer satisfaction, and coordination of procurement strategy and management by means of customer information and feedback.

From the financial perspective of cash flows and the structure of the profit-and-loss statement, marketing researchers can team with experts in financial management to model the flow of customer-generated cash through cost-centers within the firm and out to various resource-providers and other stakeholders within the firm's support network. A rigorous general model integrating value across multiple stakeholders could be very helpful to guide future research in related areas of relationship management. Some of the excellent research published in recent years examining the impact of marketing expenditures on various measures of financial performance (Hanssens 2009; Lehmann and Reibstein 2006) can also be revisited in a network framework, perhaps developing a chain of relationships among several stakeholders and specific measures of marketing effectiveness from multiple studies.

Our general concepts of sensing, resourcing, realizing, and learning in network organizations could be applied to the development and empirical validation of models dealing with specific decision variables such as products, pricing, and marketing communications of all kinds. The fundamental objective in all of this research should be to extend our understanding of marketing activities and impacts beyond the narrow boundaries of the firm and into its networked context. We are more than a little optimistic that research in these new directions will open up new horizons for the marketing discipline and substantially enhance its contributions to academic understanding, management practice, and public policy.

Concluding Comment

Research shows that, in many firms, the traditional marketing management function has not been very successful in providing the kind of influence within the firm and leadership necessitated by the new management environment. Many observers believe that this is due in part to marketing management's limited ability to understand and manage the cash-flow and other financial implications of marketing expenditures and activities. However, it will increasingly also be due to a lack of understanding of all of the stakeholders (not only customers and shareholders) and how to co-create value with them. For these reasons, responsibility for marketing effectiveness, customer advocacy and stakeholder relations must increasingly be assumed by top management while the firm continues to develop the management competence, including the financial knowledge, of its marketing specialists. Marketing and management professors can aid in this by strengthening the financial analysis content of marketing courses as well as the fundamental customer-value orientation of management courses, perhaps drawing on the results of their research built around the concepts of the Era III marketing philosophy.

Notes

1. Marketing is also often viewed as a societal process and this is reflected often in the macro-marketing literature.

2. This reciprocal resource exchange is viewed as service exchange in the emerging service-dominant logic of marketing. In S-D logic a service is the application of resources for the benefit of another and hence exchange of service is also the exchange of resources. There are strong reasons to view the exchange as service exchange (Vargo and Lusch 2004, 2008).

3. This view argues that resources must be, by definition, useful and that usefulness can only be determined by through the experience of the user. The perception of usefulness occurs first in the mind of the user and is then communicated to the resource provider.

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Table 1
Marketing's Changing Contribution to Value

	Era I Marketing as Utility Creating & Value Adding	Era II Marketing as Customer Oriented & Value Proposing	Era III Marketing as Stakeholder Unifying and Value Co-creating
Value Creation	People and Machines Create Value	The Firm Makes Value Propositions	Firms and Customers and Stakeholders Co-create Value
Locus of Value	Value in Exchange	Value in Use	Value in Context (System)
Primary Metaphor	Machine	Organization	Network
Primary Focus	The Firm and its Production	The Customer and the Market	The Customer and Stakeholders
Fundamental Goal	Profit Maximization	Shareholder Wealth	Total Value for All Stakeholders
Financial Metric	Profits	Return on Investment	Cash Flow
Purpose of Marketing	Create Utility	Satisfy Customers	Serve Customer and Stakeholders
Resources	Natural	Customer and Market Data	Knowledge
Key Management Concepts	Specialization Centralization Delegation Scheduling	Analysis Planning Implementation Control	Sensing Resourcing Responding Learning
Institutions	Private Property Markets Corporation Labor Union	Management Marketing Central Planning	Human Rights Ecological Norms
Examples of Key Technologies	Steam Engine Assembly Line Railroad Telegraph Radio Television	Aviation Nuclear Computer Operations Management Logistics	Microprocessor Software Internet Satellite