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The Impact of Marketing on Firm Productivity

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Abstract. Marketing department power, measured by both its size and structure, is expected to impact firm performance (Feng et al., 2015). By impacting both sales prices and volume of sales either through more efficient bargaining processes or by contributing to the development of the brand, the value added as well as firm profitability can be expected to increase (Angulo-Ruiz et al., 2018; Chang et al., 2018; Mohan & Sequeira, 2013; Pucci et al., 2015). The literature linking marketing department structure to firm performance is relatively scarce, in particular the economic literature. The role of branding and firm specific human capital have been gaining attention within the study of the contribution of intangible assets to firm performance (Corrado et al., 2009, 2018; Pucci et al., 2015; Rialp-Criado et al., 2003; Sajtos, 2006) and estimates show that intangible capital can contribute up to a third to productivity (value added) growth. However, the empirical literature of the impact of the marketing department power is very scarce.

The paper investigates the link between marketing department size and structure and firm performance, focusing on the question whether the size and the structure in fact impact the value added in firms, thereby impacting firm performance. The analysis relies on registry based micro-data sets for Slovenia in the period between 2008 and 2017, focusing on firms with at least 10 employees. The linked employer-employee data was used to identify the power of the marketing departments in firms and their contribution to value added. The estimates also consider the differences between sectors and different role and impact on marketing in different sectors. The results show that the top marketing managers represent around 5.9% of employees in firms with at least 10 employees, while marketing experts represent another 5.5% on average. However, there are significant differences between sectors, with the share of marketing experts being higher in the services sector (6-13%) and lower in manufacturing (3-4%). In addition, the contribution of marketing experts and other marketing employees differs by sector. In general, marketing employees contribute positively and statistically significantly to value added with elasticities being highest in services (apart from low-skilled services). The combined elasticity of value added to the employment of marketing specialists is highest in relation to marketing top management and marketing experts (ISCO1 and ISCO2), however their relative importance varies between sectors as well.

The results show that besides depending on standard variables, such as tangible capital and employment, value added at firm level depends also on the strength of the marketing departments, measured by both size and structure of the marketing department. The elasticity of value added to marketing capital is high, in particular in comparison to tangible capital, which carries significant implications for managers. To improve value added, investment into generating a strong marketing department will improve value added and thereby firms' long-run performance.

Keywords: intangible capital, productivity, marketing department, firm-level analysis

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