Why marketing and HR executives need to coordinate their activities

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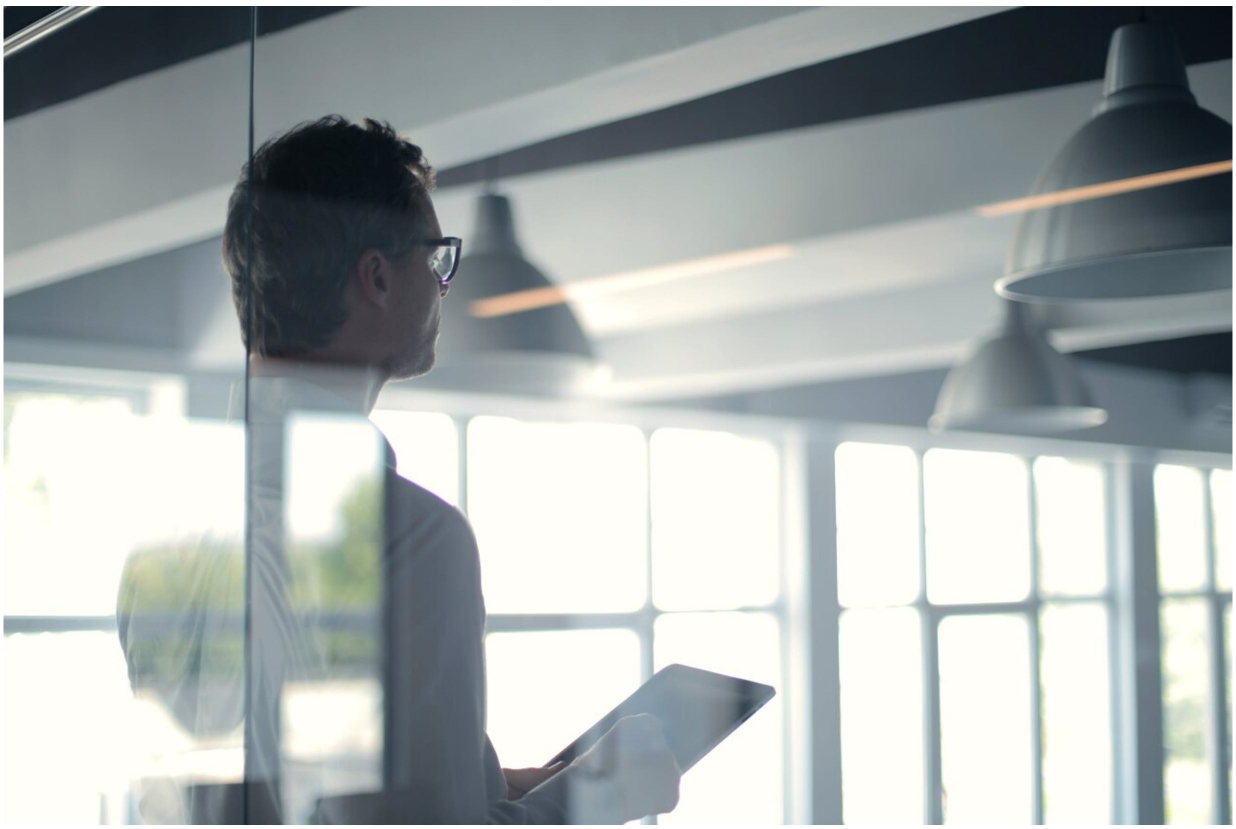

Credit: Andrea Piacquadio from Pexels

Chief marketing officers and chief human resource officers need to better coordinate their activities to maximize company value, according to a new paper by strategic management and marketing experts at Rice

University and Kent State University.

In the paper "Cross-Validation of Customer and Employee Signals and Firm Valuation" in the *Journal of Marketing Research*, the authors argued that the relative consistency with which a company treats its customers and employees can affect the company's long-term value. This treatment includes "achievements" and "lapses." Achievements are activities that produce positive and beneficial outcomes for customers or employees, such as developing new products for customers or sharing profits with employees; lapses are activities that fall short of regulatory or social norms and produce negative outcomes for employees or customers, such as large-scale layoffs or product-safety recalls.

The authors found that customer- and employee-related achievements can amplify each other's positive impact on a firm's valuation. Similarly, customer- and employee-related lapses can strengthen each other's negative impact on a firm's valuation. In other words, when there is consistency between customer-related activities and employee-related activities, their effect on the firm's value was much stronger than when there was inconsistency. In most organizations, customer-related activities are under the purview of marketing, while employee-related activities are under the purview of human resources. Thus, gaining consistency between the two types of activities may not be as simple as assumed.

The authors found evidence to support their theory using a dataset of 21,447 observations between 1994 and 2010 that represented 4,643 firms. They also found that the effect of consistency in customer-related and employee-related activities is stronger for firms with a narrow than a broad business scope. For firms with a narrow business scope, consistency in customer- and employee-related activities provides a clear signal to investors that the firm is able to manage the two key stakeholders in a coordinated manner. When firms have a broad business scope—they compete in many segments—the value of such a signal may be eroded because it may be difficult to judge such activities across multiple segments.

The paper was co-authored by Vikas Mittal, the J. Hugh Liedtke Professor of Marketing at Rice's Jones Graduate School of Business; Yan "Anthea" Zhang, the Fayez Sarofim Vanguard Professor of Management at the Jones School; and Christopher Groening, an assistant professor of marketing and entrepreneurship at Kent State's College of Business Administration.

Although companies can treat both their customers and their employees well, they may not always do so, the authors said. In an interview, the authors used the example of retail rivals Wal-Mart and Target as examples. Since 2000, Wal-Mart has seen a steady and consistent increase in customer-related lapses and employee-related lapses (as shown in the first graph included below). Counterintuitively, while there was an increase in employee-related achievements, the increase in customer-related achievements was not as strong. Conversely, Target has had relatively lower and flat levels of employee- and customer-related lapses (as shown in the second graph). Target's customer-related achievements were flat, while its employee-related achievements showed an increase in the last decade. By monitoring their customer- and employee-related achievements and lapses, firms can be in a better position to simultaneously address their customer and employee needs for maximizing firm value. However, to do this, it will be critical for firms to ensure that their marketing and human-resource departments act in unison.

For both companies, it can be said that employee-related achievements and customer-related achievements were not consistent. Such a lack of consistency undermines the positive impact of these achievements on the companies' value. Yet both companies showed consistency in employee-related lapses and customer-related lapses, which amplifies the negative impacts of these lapses on the companies' value.

"Our results imply that CEOs need to ensure that critical members of the C-suite coordinate their activities to maximize firm value," the authors said. "Specifically, managing consistency in employee and customer achievements is a key strategy for enhancing firm value." Firm valuation for companies that have consistency in employee and customer achievements on average is 11 percent higher than those having inconsistent outcomes. "For an average Standard & Poor's 2,000 firm with a market cap of $10 billion, this translates into $1.1 billion in firm value," the authors said. "In other words, improving consistency in employee achievements and customer achievements leads to big change—financially and metaphorically."

Customers and employees represent two critical stakeholders of a firm. Very often, lay theories pit them as having competing interests as firms need to allocate resources to take care of these stakeholders, but firm resources are limited. For example, when Wal-Mart recently raised employee wages, some were concerned this may lead to higher prices for customers. The authors said their results show this does not have to be the case. "By carefully coordinating activities directed at customers with activities directed at employees, firms can enhance value," Mittal said.

Zhang said, "CEOs should also take the context of their firm into account. We found these results to be much stronger for firms with a narrow than a broad business focus; that is, competing in fewer than more business segments. Accounting for the breadth of business scope is critical because it can affect firm value by moderating the effectiveness of investments in employee-customer management."

The authors concluded that because companies are subject to ever-increasing influences from stakeholders other than investors, their study encourages future research efforts on this topic.

More information: Christopher Groening et al. Cross-Validation of Customer and Employee Signals and Firm Valuation, *Journal of Marketing Research* (2016). DOI: 10.1509/jmr.12.0272

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