Designing Customer-Centric Organization Structures: Toward the Fluid Marketing Organization

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ABSTRACT

Today’s marketing organizations face unprecedented turbulence and complexity. To anticipate and adapt to fast changing customer preferences and environments, executives seek to make their internal organizations nimble and agile by constantly developing, integrating, and reconfiguring new capabilities. Yet a holistic understanding of how a firm should design its organizational structures to execute such a capability-changing process is lacking. Drawing on a dynamic capabilities perspective and organizational theory, the authors develop a theoretical framework that identifies three customer-centric structural design factors that support dynamic capabilities and thus can produce a marketing organization that is able not only to anticipate and learn from the environment but also to transform resource bases. The authors also identify boundary conditions that allow these transformations to pay off more. Overall, this conceptual framework provides managerial guidance for how to build a fluid marketing organization.

Keywords: Customer-centric structural design, dynamic capabilities, marketing organization, organizational configurations
1 INTRODUCTION

The marketing organization is a primary absorber of market shocks and changes; it serves as an early warning sign for the sales, customer contact, and service functions. As markets change, so should the design of the organization, to ensure the firm remains aligned with fast shifting markets (Deloitte 2016). When the pace of change is leisurely and predictable, the adjustment can proceed slowly, with cautious and reflective steps, and organizations’ stable and consistent routines may suffice. In contrast, when the pace of change accelerates in unforeseen ways, the firm needs to build a fluid marketing organization, defined as one that is capable of anticipating changes and adapting to new competitive landscapes and customer requirements (Day 2011; Moorman and Day 2016).

With the rise of technological disruption and digital transformation, more firms seek to build fluid marketing organizations that are inherently more agile and can pivot quickly in response to changing markets. One of the key components for establishing a fluid organization is the development of dynamic capabilities (Eisenhardt and Martin 2000; Schreyögg and Sydow 2010). Dynamic capabilities refer to “the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (Teece, Pisano, and Shuen 1997, p. 516). Extant literature reveals that environmental turbulence and learning mechanisms are key drivers of dynamic capabilities (Danneels 2008; Zollo and Winter 2002), but it is still unclear how organizational structures might help a marketing organization acquire such dynamic capabilities. Similarly, Galunic and Eisenhardt (2001, p. 1229; emphasis added) note that “little attention is paid to how dynamic capabilities and organizational structures can combine to constitute new organizational form.”

Accordingly, our objective is to provide a theoretical framework that illustrates how a
firm’s organizational structures can contribute to dynamic capabilities in a fluid marketing organization that effectively senses and seizes marketing opportunities, while also parrying competitive threats. We focus on three customer-centric structural design factors: customer-aligned structure (i.e., aligning a firm’s structural units with distinct customer groups instead of product groups), structural granularity (i.e., dividing a firm into small structural units), and networked teams (i.e., interconnecting clusters of project- or task-based teams whose activities take place within a short period of time) (Lee, Kozlenkova, and Palmatier 2015). We predict that a firm’s structural design at the corporate level also has implications for the overall and the marketing organization.

Accordingly, we build on and extend the MARKORG framework (Moorman and Day 2016) to examine how customer-centric structural design factors enable the marketing organization to develop dynamic capabilities and become more fluid—a particularly important quest in highly dynamic and digitized markets. With this approach, we attempt to understand the role of other organizational configuration elements, such as incentives, control systems, and metrics, for leveraging the efficacy of customer-centric structural design factors. As such, this chapter addresses a recent Marketing Science Institute (2018) research priority, namely, “What organizational structures enable the development of new marketing skills in new environments?”

Our theoretical framework is grounded in dynamic capabilities theory, whose avowed purpose is to explain how firms achieve growth, strategic change and adaptation (Helfat and Peteraf 2015; Teece 2007, 2014). Dynamic capabilities get exercised within organizational configurations, such as structures, metrics, and incentives, and are guided by the overall strategic direction (Moorman and Day 2016). When the dynamic capabilities reflect structural changes, they can help the firm achieve superior performance by improving its alignment with market
opportunities, though they are not cost free. If maladroitly applied, earnings enhancement possibilities can be attenuated, exposing the firm to the risk of misidentified opportunities (Zahra, Sapienza, and Davidsson 2006). Therefore, dynamic capabilities must be supported by an effective structural design.

The diverse shapes of fluid marketing organizations also appear in the emergence of (1) customer-aligned structures that leverage rich information from marketplaces and coordinate the delivery of integrated experiences and solutions (Lee et al. 2015), (2) structural granularity that provides agility and quick delivery results (Berlin, De Smet, and Sodini 2017), and (3) networked teams that mobilize talent from inside and outside the firm in task forces (Arons, Driest, and Weed 2014). These organizational structures enable marketing organizations to embrace changes to their routines and grow more resilient, even in the face of digital disruptions; however, they can also add complexities and costs. We illustrate the theoretical framework in Figure 1.

To detail this framework, we begin by examining some environmental forces that drive marketing organizations to become more fluid, as well as the kinds of dynamic capabilities needed to adapt to these forces. We then describe the structural design changes needed to transform the marketing organization and effectively activate essential marketing initiatives. Finally, we provide an example: the digital transformation of Novartis Pharmaceuticals.

—Insert Figure 1 about here—

2 UNDERSTANDING DYNAMIC CAPABILITIES IN FLUID MARKETING ORGANIZATIONS

2.1 The Need for More Fluid Marketing Organizations

The pace of change—and the consequent shocks and challenges—is accelerating in many
markets, creating a growing gap between the need to change and the capacity of the organization to keep up (Day 2011). Most of the forces roiling markets are fairly specific to their industry setting, with one notable exception: the digital transformation. This universal transformation means that traditional touchpoints and communication vehicles have become digitally enabled; it also offers the prospect of new offerings that incorporate mobility virtual reality, artificial intelligence, and blockchains. At Morgan Stanley for example, robo-advisers based in machine learning programs automate routine tasks, to allow human financial advisors to spend more time with their customers who need more personalized advice (Son 2017).

Some digital drivers and their challenges to marketers are summarized in Figure 2. Consider one immediate consequence: The chief marketing officer (CMO) may have a bigger IT budget than the chief information officer (CIO) (Kapko 2016), such that the person in this rule must be comfortable talking about technology needs. At CarMax, the CMO and CIO collaborate to design digital online tools that ensure customers’ satisfying experiences, such as by allowing them to set up individualized email alerts based on new listings or price changes, review safety ratings, or leverage recommendation tools (O’Brien, Veenstra, and Murphy 2018). Yet due to such demanding turbulence, turnover among CMOs is increasing (average tenure is now 20 months), especially because they tend to be blamed if the marketing function is slow to respond to challenges.

In turn, firms actively work to implement dynamic capabilities to make their organizations more fluid and modular. To navigate volatile and turbulent landscapes, scholars emphasize the importance of both dynamic capabilities and the organizational transformations that enable firms to build those capabilities (Eisenhardt and Martin 2000; Galunic and Eisenhardt 2001). Dynamic capabilities in particular provide a backbone for the establishment of a fluid
organization and are often described as behavioral, rather than structural, features of the fluid organization (Schreyögg and Sydow 2010).

—Insert Figure 2 about here—

### 2.2 The Underpinnings of Dynamic Capabilities

The origins of dynamic capabilities grew out of the limitations of the resource-based view of the firm, which endeavored to explain performance differences between firms as a consequence of their resources (Teece, Pisano, and Shuen 1997). These resources comprised assets such as brands or intellectual property and capabilities that allowed the assets to be deployed advantageously. *Ordinary capabilities* (also referred to as zero-level capabilities, substantive capabilities, operating routines, or first-order competences) are inherently static and embedded in established routines for carrying out well-established processes (Collis 1994; Winter 2003; Zahra, Sapienza, and Davidsson 2006). Examples of ordinary capabilities include product and service management capabilities (Karna, Richter, and Riesenkampff 2015), a firm’s IT capability to enhance existing product or service (Drnevich and Kriauciunas 2011), and technological skills (Wilden and Gudergan 2015). In one meta-analysis, organizational structure also is included among ordinary capabilities (Karna, Richter, and Riesenkampff 2015).

Dynamic capabilities theory instead seeks to explain how ordinary capabilities might be developed but also continuously adapted to market evolutions or nonlinear discontinuities. They function to ensure organizational fitness and shape the environment in advantageous ways. There are many variations (e.g., Barreto 2009; Zahra and George 2002; Zollo and Winter 2002), but the most fully elaborated and refined dynamic capabilities framework is that offered by Teece and colleagues; we adopt this overall framework for our purposes too. It proposes that the main functions of dynamic capabilities are (1) sensing environmental changes that could be threats or
opportunities, by scanning, searching, and exploring across markets and technologies; (2) seizing these opportunities by combining and transforming available resources in new and different ways or adding new resources through partnerships or acquisition; and (3) transforming the organizational configuration and business model for delivering value to customers and then capturing the economic profit (Teece 2007). Dynamic capabilities help a firm see opportunities sooner than its rivals and stay synchronized with market changes. Examples of dynamic capabilities thus include a firm’s ability to add new customer or technological competences to its repertoire (Danneels 2002, 2008) and its adaptive marketing capabilities (Day 2011; Day and Schoemaker 2016; Zhang and Wu 2017).

Dynamic capabilities often build on the past to seize the future, though they also may entail a break from the past. They entail not just resource deployment but also altering, augmenting, and orchestrating the firm’s core capability platform. Thus, a firm’s dynamic capability is not an ad hoc solution to a problem but a repeatable and deeply embedded set of skills and knowledge, exercised through a process. In marketing, studies predominantly focus on identifying ordinary capabilities and assessing their effectiveness (Kozlenkova, Samaha, and Palmatier 2014), whereas “very few studies have focused on exploring higher-level, dynamic marketing capabilities” (Morgan, Feng, and Whitler 2018, p. 81). To establish a clear understanding of dynamic capabilities, we provide a comparison with ordinary capabilities (definitions, synonyms, and empirical examples) in Table 1.

—Insert Table 1 about Here—

Dynamic capabilities reside in part with individual managers and the leadership team (Helfat and Peteraf 2003), and they require organizational change procedures (Galunic and Eisenhardt 2001). As firms align their organizational design, including its structure, culture,
human capital, and processes, with fast changing digital disruptions, they can achieve long-term success (Kane et al. 2016). Specifically, the organizational structure dictates learning routines and resource allocations in the organization, with important implications for the formation of dynamic capabilities (Table 2). A productive adaptation also recognizes that any digital transformation requires bridging functional silos and breaking down barriers, especially between sales and marketing.

—Insert Table 2 about Here—

2.3 Dynamic Capabilities in a Fluid Marketing Organization

Scholars in marketing and strategy identify a wide array of dynamic capabilities that may be integral to overall sensing and seizing functions. We focus here on specifying the dynamic capabilities that are particularly critical for marketing organizations in volatile environments. Specifically, we narrow our attention to two: vigilant leaning capability and adaptive experimentation capability. Both of these capabilities enable marketing organization to foresee and sense emerging opportunities in internal and external environments (e.g., changing customer’s needs), then seize those opportunities and learn about their underlying patterns (Day and Schoemaker 2016).

2.3.1 Vigilant learning capability

Vigilant learning capability is a learned firm dynamic capability, characterized by a superior ability to anticipate serious threats, recognize major opportunities, and act on the information faster than others, even if the information is incomplete (Day 2011; Zollo and Winter 2002). Vigilant learning requires employees to be more alert to and curious about their market surroundings, which may be peripheral to the firm’s core operations. As the digital landscape continues to evolve, firms try to be more observant of advancements in new
technologies that drive customers’ experiences (e.g., smart devices, digital products) (Boston Consulting Group 2013). Market-oriented firms, with their deep understanding of customers’ current and latent needs and their competitors, tend to be more attentive to market changes and better able to act on the external information (Narver and Slater 1990). A firm’s willingness to cannibalize existing routines and engage in constructive debate about ideas and assumptions can help it build a strong ability to explore a richer set of options with vigilance and add new customer competences (Danneels 2002, 2008).

2.3.2 Adaptive experimentation capability

Adaptive experimentation capability refers to the firm’s ability to conduct early, small experiments that explore new initiatives (e.g., rapid prototyping) (Day 2011). Whereas a vigilant learning capability allows organizations to anticipate and sense changes in the market, including weak signals, an adaptive experimentation capability gives them the means to convert those observations into meaningful new insights and codify the knowledge (Day and Schoemaker 2016). For example, Google implemented a policy of “20% time,” which allowed employees to devote their time to personal projects one day a week, which resulted in several successful products and services, such as Gmail and Google News. Yet such experimental activities may threaten the overall efficiency of the firm; Google began to require that employees get managerial approval to work on independent projects, based on their productivity, rather than keeping the 20% time open to all employees. According to an industry report, even if “digital strategies differ by industry and circumstance, … digitally progressive companies … engage in rapid experimentation, take risks, invest in their own talent” (Kane et al. 2016).

3 TRANSFORMING MARKETING ORGANIZATIONS: CUSTOMER-CENTRIC STRUCTURAL DESIGN
3.1 Linking Dynamic Capabilities to Customer Centricity

A firm can foster its ability to pilot and create insights when the organizational design in place facilitates those activities. That is, dynamic capabilities are embedded in the current culture and configuration of the organization, and especially its structure (Girod and Karim 2017). In addition, organizations can transform their structures to make them more fluid and flexible. Specifically, we predict that a customer-centric structural design enables dynamic capabilities and allows firms to trigger crucial organizational changes (see Table 2). This prediction is consistent with the view that the effect of an organizational structure gets remobilized and converted into action levers that relate to dynamic capabilities—which marketers deploy to generate performance results (Moorman and Day 2016). We also regard cultural change as a consequence of successful changes to the structures, which help sustain that change.

—Insert Table 2 about Here—

3.2 Customer-Centric Structural Designs that Enable Dynamic Capabilities

We focus on three customer-centric structural design factors, previously identified as types of organizational structures that enhance the organization’s ability to link internal functions with external customers and markets: customer-aligned structures, structural granularity, and networked teams. Although extant literature devotes substantial attention to customer-aligned structures, other structural design factors, such as structural granularity and networked teams, also help firms align with their markets and customers and become more customer-centric (e.g., Lee, Kozlenkova, and Palmatier 2015). We posit that these customer-centric structural designs support a firm’s development and management of dynamic capabilities.

3.2.1 Customer-aligned structures

Customer-aligned structures—defined as a structural design in which a firm’s business
units are aligned with distinct customer groups, rather than product groups—can create dynamic capabilities in a fluid organization (Day 2006; Lee et al. 2015). Aligning units around customers generates “accountability for managing customer relationships” (Shah et al. 2006, p. 117), encourages a shared within-unit focus on customers, and improves customer insights (Homburg, Workman, and Jensen 2000). Because customer-aligned structures allow each business unit to sense shifts in the market quickly and foster cross-functional activities, it enhances employees’ abilities to navigate the changing technologies and customer data (e.g., social media marketing, discussions in online communities, digital contents) and then respond to this new information more effectively (Deloitte 2016; Porter and Heppelmann 2015). In turn, this structural design prompts higher levels of vigilant learning in the marketing organization and makes the firm more open to experiments. In contrast, in a firm with product-based units, multiple units might target the same customers, which would create confusion for customers and disrupt relationship-building efforts (Day 1999; Rust, Moorman, and Bhalla 2010). As a result, these product-aligned units become less adaptive to changing customer needs and requirements.

Aligning units to mirror customer groups also comes with a cost though (Shah et al. 2006). To deliver offerings to customers as an integrated experience, the front-end and back-end offices must converge to provide seamless customer solutions. This process requires duplication of infrastructure and functions, so structural complexity arises and must be resolved through sophisticated internal coordination mechanisms. For example, Cisco Systems had to dismantle its customer-aligned structure and returned to a product-aligned structure, because of the unbearable resource duplications (Gulati 2007). Still, digital technologies and Internet connectedness can lower these coordinating costs; firms also can find more efficient ways to combine and reconfigure resources, which should help them navigate rapidly shifting technologies and
customer voices.

### 3.2.2 Structural granularity

Structural granularity is the extent to which a firm divides itself into small structural units (Deloitte 2016; Lee, Sridhar, and Palmatier 2017). Customer-aligned structures demand major organizational changes to the structural archetype, which determines the resulting groupings and coordination of resources; structural granularity instead involves smaller-scale changes, such as adding, deleting, or recombining structural units (Girod and Karim 2017; Karim 2006). Disaggregating a firm into smaller structural units increases agility, by allowing each unit to engage closely with target customers, improving employees’ responsiveness to customers’ changing needs, and making the units more vigilant in detecting changes. In addition, granular units can launch smaller-scale experiments and position the organization to seize fleeting opportunities, then learn from such trials and errors, because this structure empowers individuals to quickly identify even minuscule changes in the market (Berlin, De Smet, and Sodini 2017; Blenko, Mankins, and Rogers 2010; Mankins and Garton 2017). The food company Cargill keeps its units and departments granular and agile explicitly to facilitate organizational learning (Brown 2013).

However, some of the agility benefits of granularity can be offset by costs associated with functional redundancies, compromised economies of scale, and increased resource competition among units (Eisenhardt and Brown 1999). For example, some customers still may need to interact with several of the smaller units, so firms need to institute additional customer-centric processes (e.g., sales programs) to mitigate customers’ communication burden (Kumar, Venkatesan, and Reinartz 2008). Firms also can turn to digital and information technology to lower the duplication costs of granularity, by consolidating databases and identifying redundant
applications (Akella, Buckow, and Rey 2009).

### 3.2.3 Networked teams

Networked teams—or interconnected clusters of project- or task-based groups whose activities take place during a limited period—enhance employees’ learning agility by increasing the flexibility of their knowledge transfers and fostering informal communications (Achrol and Kotler 1999; Deloitte 2017). A network structure is not required to be solidified at corporate headquarters or in an organizational chart; it can consist of voluntary, ad hoc groups. For example, in the “orchestrator” model (Arons, Driest, and Weed 2014), CMOs and other marketing leaders operate like orchestrators, tapping talent from internal and external sources with partners to staff short-term task forces that then can tackle specific initiatives. The network structure enhances cross-boundary (e.g., customer–firm, cross-functional) knowledge sharing and cooperation, which should improve innovation performance and facilitate learning in the organization (Lee, Kozlenkova, and Palmatier 2015). As firm members engage in expanded interactions with both internal employees and external entities, such as consultants or channel partners, they likely gain greater exposure and learn about changes, even those peripheral to the firm’s boundaries.

Yet it remains difficult to implement this form of structure, because of the coordination costs. For example, only 12% of human resource managers in a recent survey understood how their employees worked together in networks (Deloitte 2017). Because firms can constantly change these units’ responsibilities, more confusion often results. An essential requirement thus involves clarifying accountability when employees work in networks of teams, with the recognition that the “degree of complexity of an organizational structure or form (e.g. tall vs. flat; matrix, virtual matrix, network form) impacts the nature, rate, and diffusion of different
activities within an organization, such as information processing, knowledge sharing, routine replication, and capability development” (Felin et al. 2012, p. 1365). In this realm, blockchain technology may mitigate transaction costs, by making the organizational boundaries more fluid and porous, reducing search costs, and revealing resources in a more timely manner. For example, ConsenSys, a venture production studio, used blockchain technology to flatten its structure, codify work and contributions in smart contracts, and establish a hub-and-spoke arrangement in which the technology provides the supporting services (Tapscott and Tapscott 2017).

3.2 Organizational Configurations that Leverage the Effectiveness of Customer-Centric Structural Design Factors

To maximize the effectiveness of structural changes in the organization and develop dynamic capabilities, other design configurations also needs to be reorganized. In this context, configurations refer to the structure, incentives, control systems, and metrics, such that they establish “the organizational setting within which marketing capabilities are exercised” (Moorman and Day 2016, p. 15). Organizational configurations often are regarded as “hard” design elements that dictate the algorithms of work in the organization (Boston Consulting Group 2016); they must achieve alignment to produce superior business performance (Day 2003).

3.2.1 Incentives and control systems

Incentives span compensation and reward systems that encourage employees to perform effectively (Galbraith, Downey, and Kates 2002). To leverage the effect of customer-centric structural design factors, firms should incentivize employees to engage in more experiential learning, with a system that rewards them for exchanging entrepreneurial knowledge across
organizational boundaries and minimizes the fear of failure (Day 2011). In parallel, firms can implement peer evaluation systems, in which peers assess the performance of individuals and teams, on the basis of the members’ contributions and creativity; such a system empowers and encourages them to adopt creative ways of working with customers and partners (Felin and Powell 2016). Moreover, a reward system based on customer and marketing outcomes, such as customer loyalty, retention, and advocacy (Boston Consulting Group 2016; Felin and Powell 2016), can help the structural factors accelerate the formation of dynamic capabilities in marketing organizations.

Digitizing the coordination system across business units and individuals also might provide a way to leverage the effectiveness of customer-centric structural designs. For example, firms use custom mobile apps or cloud technologies to share their progress and communicate with other teams about customer experiences, which can be integrated into a firm’s human resources program (Deloitte 2016). On-demand micro-learning and online forums can cultivate a mindset of vigilant learning, which should help employees better articulate and codify new knowledge they have gained in the market.

3.2.2 Metrics and measurement systems

Incentives and control systems describe a behavioral impetus for employees who conduct tasks; metrics and measurement systems refer to the quantitative outcomes, used to monitor the degree to which a specific goal has been achieved. Marketers use a wide arrange of metrics to measure marketing outcomes and financial performance (e.g., market share, customer satisfaction, impressions, promotional lift, return on investment) (Mintz and Currim 2013). By using these metrics, the firm can efficiently execute its tasks, define the causal effect of its marketing actions, and acquire market knowledge (Homburg, Artz, and Wieseke 2012). Because
marketing metrics help structural units and employees sense changes in the market and enhance the accuracy of their decision-making processes, they should enhance the effects of structural design factors on the development of dynamic capabilities in the marketing organization. For example, a smaller unit’s ability to gain in-depth knowledge and be vigilant to market changes can be improved if it sees precisely how its marketing efforts lead to actual results.

3.3 Illustrative Case: Transforming Pharmaceutical Marketing

Novartis Pharmaceuticals sought to apply digital technologies to a fragmented, intensely competitive prescription drug market; this case reveals how customer-centric design factors can work together to align the organization with its market. Historically companies such as Novartis relied on a “share of voice” approach to marketing: The marketing group crafted plans and sales messages to persuade doctors to prescribe their drug. Sales representatives paid visit after visit to prescribing physicians, following a carefully constructed script and leaving a standard set of printed materials at the front desk. Through the “fat years” of blockbuster drug breakthroughs, handsome margins meant there was no need for these companies to reinvent their approach. Eventually though, external forces and internal shortcomings led to the gradual decline of this blockbuster era. Drugs lost their patent protections, and weak R&D pipelines meant that no ready replacements were on hand. Generic versions captured market share and led to sharp price cuts. Simultaneously, purchasing power and influence shifted to consolidating payers and providers.

By 2011, the marketing department at Novartis Pharmaceuticals was demoralized. Sales representatives were operating in a radically changed world, marked by severely limited access to physicians, and the number of new products that they could discuss when they did get in the door was dwindling as well. Nevertheless, company leaders stuck with the traditional detailing

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1 This section is adapted from Day and Schoemaker (2016) and based in part on Marchand and Bochukova (2014).
model, asking sales representatives to buckle down and apply even greater effort to connect with “key prescribers”—defined as physicians with a demonstrated history of prescribing Novartis’s products. These brief, one-way communications felt, to sales representatives, like monologues, which also meant that Novartis marketers had little data about how consumers perceived or used the company’s drugs, and no way of knowing what sales strategies were most effective.

In response to declining sales and mounting frustration among its sales force, Novartis leadership eventually launched an initiative to help 25,000 sales representatives in 80 countries engage with doctors in more consultative, two-way dialogues. The marketing strategy emphasized value-added services and multiple channels of communication. It also envisioned new, technologically enabled communications between sales representatives and physicians, allowing for answers in real time, offered by appropriate scientific experts. Reps could immediately access any data that a doctor would find most relevant. Before implementing this digital sales platform, Novartis sales representatives detailed only one or two drugs at a time in their meetings with potential buyers. The new digital platform allowed reps to carry an entire portfolio of drug presentations.

Novartis also equipped its sales representatives with mobile devices that enabled videoconferencing (often across multiple locations), access to the latest information, and interactive patient tools. The digital platform encouraged direct sharing of innovative practices across countries, rather than relying on mostly one-way messages from headquarters to regions. Some of its competitors also were using digital sales tools, but they had limited ability to support, rather than supplant, the conventional sales model.

Changing interactions with doctors from “monologues” to “dialogues” allowed Novartis to sense some weak signals. By using 25,000 direct touchpoints with customers, embedded in its
structure, Novartis marketers determined which factors were most relevant and important to their customers. More than half a million calls used the digital platform between May 2014 and December 2016, and 80% of reps said the digital platform had a positive effect on how they communicated with physicians.

The digital customer engagement platform also captures detailed information about the sales interactions, which reveals in-depth insights into customers’ preferences, to which the marketing message can be personalized. As Novartis deepened its market knowledge, it noticed newly budding problems and spotted emerging market opportunities sooner; the entire organization became sensitized to the need to make decisions from the outside-in. The key was cross-functional collaboration among various structural units—both users of the information and those who managed the information files.

Novartis’s success in becoming more customer-centric also required it to realign its marketing and sales organizations to deliver tailored offers to both individual prescribers and large healthcare payers and providers. The customer engagement initiative was granular, such that small groups in multiple countries conducted as many as 42 pilot tests to determine how to design the platform and monitor acceptance by sales reps. Its ultimate success depended heavily on innovative efforts by networked teams, in which they mobilized internal talent and various development partners. The company collaborated with a cloud-based provider on the software platform for example, and it asked local graphics agencies to work on the information architecture to buttress the skills of Novartis’s own marketing teams.

4 CONCLUSION

4.1 Theoretical and Managerial Implications

Markets have become more volatile than ever before, primarily reflecting the widespread
transformations due to digital technologies that pose both opportunities and threats to marketing organizations. Amid this digital disruption, gaining the abilities to embrace changed routines and establish more resilient, dynamic capabilities are central to success (Kane et al. 2016). Firms make significant investments to develop resources that will allow them to quickly sense and statically seize emerging opportunities.

To stay afloat in turbulent environments and continue to build necessary dynamic capabilities, firms should design organizations to be fluid and agile. This chapter details three customer-centric structural design factors that managers can leverage to build fluid marketing organizations: customer-aligned structure, structural granularity, and networked teams. We draw on the MARKORG framework, which provides insights into the role of organizational structures and design configurations (Moorman and Day 2016). Customer-centric structural design factors can cultivate vigilant learning capabilities and adaptive marketing experiments, by facilitating customer accountability and market sensing, as well as reducing the time needed to respond to changing customer needs. However, they also can impose costs, associated with duplicating infrastructure and increasing coordinating complexity; such costs ultimately may undermine business performance. To support the development of dynamic capabilities through organizational structures, senior executives should work to align other design configurations as well, including incentives, control systems, and metrics.

Structural-design decisions are often made without guidance from marketers, but such processes may result in diminished agility and business performance. Restructuring decisions often are driven by financial portfolios or mergers and acquisitions, rather than the key marketing concern, namely, to cultivate customer relationships. Because “the structure or design of decision-making activities within organizations may affect routines and capabilities” (Felin et
Managers should make more marketing-driven decisions when reorganizing their structures. Managers of marketing, sales, and R&D organizations also must be more cognizant of and communicative about the effect of structural changes, rather than just passively implementing them, because any restructuring may hamper marketing efforts. Finally, managers should realize that any structure will operate differently across various environments (e.g., service industry, high tech market) and firm-specific characteristics (e.g., branding and marketing strategies).

4.2 Research Directions

Organizational configurations, such as structure, incentives, and metrics, are often regarded as “hard” organization design elements, whereas culture and mindsets represent the “soft” elements (Boston Consulting Group 2016). We call for research that examines how such soft elements might generate dynamic capabilities, in interaction with hard elements. In addition, because “dynamic capabilities … do not guarantee organizational success or survival” (Zahra, Sapienza, and Davidsson 2006, p. 918; see also Drnevich and Kriauciunas 2011), continued research should investigate empirically how dynamic capabilities and organizational structures together drive business performance. Implementing customer-centric structural designs and developing dynamic capabilities will require strong support from the C-suite and employees, but many organizations tend to exhibit inertia and choose existing routines and consistencies over restructuring. This constant trade-off between fluidity and stability highlights the ongoing need to find and assess new organizational forms.
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FIGURE 1
Designing Customer-Centric Organization Structures: Toward the Fluid Marketing Organization

Customer-Centric Structural Design

Customer-aligned structure
Aligning a firm’s structural units with distinct customer groups instead of product groups

Structural granularity
Dividing a firm into small structural units

Networked teams
Interconnecting clusters of project- or task-based teams whose activities span a short period of time

Dynamic Capabilities of a Fluid Marketing Organization

Vigilant marketing learning

Adaptive marketing experiment

Complexities and Costs of a Fluid Marketing Organization

Internal complexities

Coordinating costs

Organizational Configuration to Leverage the Effectiveness of the Customer-Centric Structural Design

Incentives and control systems

Metrics and measurement systems
FIGURE 2
Drivers of Digital Marketing Transformation

Digital Drivers
- Shift of balance of power to market
- Data explosion
- Artificial intelligence and deep learning
- Mobility
- Blockchains
- Internet of things

Challenges
- Need for greater customer engagement
- Proliferating touch points
- Rising expectations for a seamless experience
- Demand for integrated solutions
- Erosion of brand loyalty
- New competitors emerging

Marketing IT Budget > CIO Budget

Marketing Excellence
### TABLE 1
Comparison of Ordinary Versus Dynamic Capabilities

<table>
<thead>
<tr>
<th>Capabilities Studied in Selected Empirical Research</th>
<th>Ordinary Capabilities</th>
<th>Dynamic Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dannels (2008)</td>
<td>-</td>
<td>A firm’s ability to add new customer or technological competences to the firm’s repertoire</td>
</tr>
<tr>
<td>Drnevich and Kriauciuinas (2011)</td>
<td>A firm’s IT capability to enhance (1) existing products or services and (2) existing business processes</td>
<td>A firm’s IT capability to (1) develop new products or services, (2) implement new business processes, (3) create new customer relationships, or (4) change ways of doing business</td>
</tr>
<tr>
<td>Wilden and Gudergan (2015)</td>
<td>Marketing capabilities, technological capabilities</td>
<td>Market sensing, reconfiguration</td>
</tr>
<tr>
<td>Karna, Richter, and Riesenkampff (2015) [meta-analysis]</td>
<td>(1) Operations and processes (e.g., internal manufacturing, supplier process alignment) (2) Product, service, and quality (e.g., number of new products, core service capabilities) (3) Resources and assets (e.g., asset specificity, resource complementarity, resource magnitude) (4) Organization and structure (e.g., structural alignment, HR-fit) (5) Customer and supplier relationships (e.g., customer management capability, supply chain management performance)</td>
<td>(1) R&amp;D, innovation, and technology (e.g., patents, R&amp;D intensity, innovativeness, new product development) (2) Strategic decision making and market research (e.g., strategic planning quality, market entry sensing, M&amp;A, competitor orientation) (3) Cooperation, alliance, and external relations (e.g., alliance portfolio diversity, international exposure, knowledge of suppliers) (4) Knowledge management (e.g., organizational learning, knowledge management capability, adaptive learning orientation) (5) Intangible assets and reputation (e.g., inimitability, non-substitutability, social capital) (6) Strategic human capital management (e.g., goal congruency, investment relative to rivals in human capital)</td>
</tr>
<tr>
<td>Zhang and Wu (2017)</td>
<td>-</td>
<td>Sensing seizing capabilities; part of adaptive marketing capabilities (Day 2011)</td>
</tr>
</tbody>
</table>
### TABLE 2
Selected Definitions of Dynamic Capabilities and Role of Organizational Structures

<table>
<thead>
<tr>
<th>Reference</th>
<th>Definition of Dynamic Capabilities</th>
<th>Role of Organizational Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teece, Pisano, and Shuen (1997)</td>
<td>&quot;Firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments&quot; (p. 516).</td>
<td>The formal/informal organizational structure, represented in the degree of hierarchy and integration, shapes a firm's dynamic capabilities. For example, highly flexible structures or virtual corporations encourage systematic innovations.</td>
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<tr>
<td>Eisenhardt and Martin (2000)</td>
<td>&quot;The firm's processes that use resources—specifically the processes to integrate, reconfigure, gain and release resources—to match or even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resources configurations as market emerge, collide, split, evolve and die&quot; (p. 1107).</td>
<td>Simple structures (e.g., limited routines, simple rules) should allow employees to engage in sense-making about dynamic situations and concentrate their attention amid market turbulence. A lack of structure can be disastrous.</td>
</tr>
<tr>
<td>Galunic and Eisenhardt (2001)</td>
<td>&quot;Organizational and strategic processes by which managers manipulate resources into new productive assets in the context of changing markets&quot; (p. 1229).</td>
<td>Modular structures, where each autonomous business unit has its own unique product-market domain but units as a whole work on similar markets/technologies, enhance the ability to respond quickly to volatile business conditions and to recombine various resources.</td>
</tr>
<tr>
<td>Zollo and Winter (2002)</td>
<td>&quot;A learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness&quot; (p. 340).</td>
<td>Team structures, or creating a specific function or department responsible for the process to be learned (e.g., M&amp;A teams), can facilitate the knowledge accumulation process in the organization.</td>
</tr>
<tr>
<td>Teece (2007)</td>
<td>&quot;... can be disaggregated into the capacity (1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets&quot; (p. 1319).</td>
<td>Flat structures, or increasing divisional authority, can better overcome inherent isolation errors related to hierarchical and multilevel decision-making processes.</td>
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</table>
## TABLE 3
Customer-Centric Structural Design Factors that Enable Dynamic Capabilities in Fluid Marketing Organizations

<table>
<thead>
<tr>
<th>Reference</th>
<th>Context</th>
<th>Examples</th>
<th>Structural Enablers of Dynamic Capabilities</th>
<th>How Organizational Structure Enables Dynamic Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer-aligned structure</strong></td>
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<td></td>
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<tr>
<td>Deloitte (2016)</td>
<td>Survey of 7,000 leaders in over 130 countries</td>
<td>Cleveland Clinic</td>
<td>• Customer-aligned structure</td>
<td>Cleveland Clinic shifted away from a structure that focuses on functional medical practices to a patient-centric structure by combining surgeons and medical specialists. This restructuring provided agility and responsiveness, which significantly enhanced the quality of health care that patients received.</td>
</tr>
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<td>Porter and Heppelmann (2015)</td>
<td>Theoretical discussion</td>
<td></td>
<td>• Customer success management units</td>
<td>With the rise of smart and connected products, more firms adopt customer success management units, which are in charge of managing the customer relationships and ensuring that customers get maximum value from the product. These units collaborate with other functional areas such as marketing and sales to constantly monitor the use of smart products and performance data and thereby identify ways to increase the value customers capture.</td>
</tr>
<tr>
<td>Boston Consulting Group (2016)</td>
<td>Case study of financial services industry</td>
<td>USAA</td>
<td>• Customer-aligned structure</td>
<td>Organizing around customers rather than product silos enhances the firm’s ability to provide a satisfactory customer experience in a digital world. In addition, a firm’s digital capability (e.g., understanding online interface, digitized business processes) can help the organization make more customer-centric and better informed decisions.</td>
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<tr>
<td><strong>Structural granularity</strong></td>
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<tr>
<td>Berlin, de Smet, and Sodini (2017)</td>
<td>Case studies in banking and home nursing industries</td>
<td>ING, Buurtzorg</td>
<td>• Small cross-functional units (squads, tribes, pods)</td>
<td>To allow employees to be quickly redeployed to new opportunities in the market, firms create small autonomous units that are responsible for a defined set of customers or geographic areas but organized horizontally across their functional end-to-end operations.</td>
</tr>
<tr>
<td>Mankins and Garton (2017)</td>
<td>Case study of Spotify</td>
<td>Spotify</td>
<td>• Small cross-functional units (squads)</td>
<td>Small squads that are self-organizing and cross-functional allow firms to balance autonomy with accountability. Each squad usually consists of eight or fewer people and is responsible for some specific aspect of the product. Multiple squads make up a tribe, which support specific competencies such as web development and quality assistance. The tribes encourage learning throughout the squads. Guilds, which cut across squads and tribes, facilitate knowledge sharing.</td>
</tr>
<tr>
<td>Deloitte (2016)</td>
<td>Survey of 7,000 leaders in over 130 countries</td>
<td>Amazon</td>
<td>• Granular units</td>
<td>Small units can engage employees better and be more efficient at achieving goals. Amazon’s CEO Jeff Bezos said, “If I see more than two pizzas for lunch, the team is too big.”</td>
</tr>
</tbody>
</table>
TABLE 3 (CONTINUED)
Customer-Centric Structural Design Factors that Enable Dynamic Capabilities in Fluid Marketing Organizations

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<td><strong>Networked teams</strong></td>
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</tr>
<tr>
<td>Deloitte (2016)</td>
<td>Survey of 7,000 HR leaders in over 130 countries</td>
<td>U.S. military, Uber, Cisco</td>
<td>• Network of teams</td>
<td>To create more agile and flexible organizations, firms build and empower self-managed networked teams that work on specific business projects to achieve a specific outcome. Upon the completion of the assignment, employees move on to new projects. According to the survey, only 12% of HR managers understand the way their employees work together in networks.</td>
</tr>
<tr>
<td>Deloitte (2017)</td>
<td>Survey of 10,000 HR leaders in over 140 countries</td>
<td>Facebook, Google Team Drives, Microsoft Skype</td>
<td>• Network of teams</td>
<td>Firms push toward a flexible team-based structure that is designed for agility and adaptability in an era of digital disruption. Teams form to work on a specific project for a short period of time (one to two years), then disperse after the completion of the project.</td>
</tr>
<tr>
<td>Arons, Driest, and Weed (2014)</td>
<td>Survey of 10,000 marketing executives globally</td>
<td>Coca-Cola, Unilever, and Shiseido</td>
<td>• Orchestrators and networked organization</td>
<td>The “orchestrator” model enables CMOs and other marketing leaders to operate as orchestrators, tapping talent from internal and external sources with partners to staff short-term task forces that tackle specific initiatives. In doing so, cross-functional teams are created, and orchestrators make sure that they have relevant resources and monitor their performances.</td>
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