Industrial Marketing Management xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Industrial Marketing Management

journal homepage: www.elsevier.com/locate/indmarman

Lone wolf or social monkey? The role of marketing outsourcing in the development of second-order marketing competences

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ARTICLE INFO

Keywords:
Outsourcing
Second-order marketing competences
First-order marketing competences
Absorptive capacity
Organizational learning
Dynamic capabilities

ABSTRACT

Marketing outsourcing has been increasing for decades due to its well-known benefits, even though the development of dynamic marketing capabilities can be severely damaged as a result. This study focuses on the conditions under which marketing outsourcing favors organizational learning. We found that the relationship between marketing outsourcing and second-order marketing competences resembles an inverted U curve. The first-order marketing competences and absorptive capacity positively moderate this relationship both individually and jointly, by shifting the U-curve to the right. Thus, any firm has an optimum level of beneficial outsourcing that depends on how skilled it is in the outsourced marketing function and its ability to assimilate and apply new knowledge. Our findings provide learning-related criteria for the outsourcing decision. Firms that will consider them can develop a knowledge-based competitive advantage while still enjoying the benefits of outsourcing. Against the common wisdom, we show that the development of new marketing capabilities is an equally challenging task for marketing functions with both low and high knowledge intensity.

1. Introduction

Outsourcing has been widely recognized as an important trend in business marketing in recent decades (Ahearne & Kothandaraman, 2009). The outsourced marketing activities range from operations, such as call centers and website management to program development and implementation, data analytics, and customer experience integration (McGovern & Quelch, 2005). Firms generally decide to outsource one or several of these marketing activities to either cut costs or access internally unavailable capabilities. Extensive discussions about the benefits and pitfalls of outsourcing have already been made in previous articles (Bourlakis & Melewar, 2011; Kotabe, Mol, & Murray, 2008). While the positive overall trade-off is apparent from the trend of increasing levels of outsourcing, the exploration and generation of new marketing capabilities – referred to as second-order marketing competences (Danneels, 2008) – can be severely hurt as a result.

Outsourcing decisions imply discarding the potential incremental improvements in the current marketing competences, which raises the question of whether marketing outsourcing can serve as a source for developing new marketing competences. The existing literature suggests that the client firm usually becomes highly dependent on the marketing service provider's capabilities and performance (Lacity & Willcocks, 2017). Based on this idea, most client companies do not take advantage of their interactions with more knowledgeable providers to enhance their own marketing capabilities, which leads us to propose the following research question: "To what extent and under which circumstances does marketing outsourcing improve organizational learning?" While a number of papers briefly mention organizational learning as a benefit of marketing outsourcing (Contractor, Kumar, Kundu, & Pedersen, 2010; Mudambi & Tallman, 2010), to the best of the author's knowledge, there is no empirical evidence supporting this relationship.

To answer this research question, dynamic capability theory (Teece & Pisano, 1994) and organizational learning theory (March, 1991) provide a thorough framework for how companies improve their competences. According to the former, dynamic capabilities are higher-level competences that determine the firm's ability to integrate, build, and reconfigure internal and external resources/competences to address, and possibly shape, rapidly changing business environments (Teece, 2007). Operational capabilities, in contrast, represent the firm's ability to perform its daily tasks that yield a clear and immediate outcome. Dynamic capabilities are responsible for the development of new operational capabilities and the dropping of the obsolete ones (Wilden & Gudergan, 2015).

According to Danneels (2008), first-order marketing competences represent the stock of a firm's competences and are defined as

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https://doi.org/10.1016/j.indmarman.2019.11.017
Received 21 January 2019; Received in revised form 6 October 2019; Accepted 18 November 2019

operational capabilities that consist in performing particular marketing tasks with a standard efficiency or better. In marketing, first-order competences are the ability to develop and implement marketing strategies, to do market research, or to perform environmental analysis (Morgan, 2012). The firm's competence to enhance the stock of first-order marketing competences is called second-order marketing competences. These are a form of dynamic capabilities that involve altering the resource base of a firm by adding new marketing competences, thus creating a “flow in the stock” of competences (Danneels, 2008).

Organizational learning theory offers an additional explanation on how firms develop their competence portfolio. According to this theory, organizations can follow two conflicting paths of learning: exploitation and exploration. The exploitation path implies the use of existing marketing competences to further refine them, thus resulting in small incremental improvements in the first-order marketing competences (Danneels, 2016). The exploration path consists of learning activities that lead to the addition of new resources and organizational competences. Thus, second-order marketing competences are competences at exploration (Danneels, 2008). These learning paths should be seen as opposing ends of a continuum rather than discrete choices, to reflect the manager's ability to deal with the inherent trade-off between the two (Lavie, Stettner, & Tushman, 2010). Hence, in line with the idea of degree of exploration proposed by Walter, Lechner, and Kellermanns (2016), when we refer to “explorative learning”, it must be understood as “predominantly explorative”.

Dynamic capability theory and organizational learning theory are closely intertwined, which makes them highly complementary as overarching theories (Schilke, Hu, & Helfat, 2018). Teece (2007) identifies organizational learning as one of the microfoundations of dynamic capabilities, and he even suggests a close connection between the concepts of exploration and exploitation, on one hand, and sensing and seizing, on the other hand, that are fundamental dynamic capabilities. Dynamic capabilities also reveal how firms extract valuable insights from market-based learning that would eventually enhance their operational capabilities (Morgan, 2012).

While network-level effects, such as strategic alliances and acquisitions, were highlighted as ways to develop dynamic capabilities (Rothaermel & Hess, 2007), business outsourcing has been widely neglected in this respect. However, if we consider that dynamic capabilities depend on learning mechanisms, such as repeated practice and the pacing of experience (Eisenhardt & Martin, 2000), it becomes obvious that outsourcing is a double-edged sword when it comes to building dynamic capabilities. On one hand, outsourcing provides the opportunity to benchmark to the best practices noticed at the expert provider. Thus, the client firm will learn from its marketing service providers by benchmarking content- and process-related aspects of the marketing capabilities that drive superior performance (Vorhies & Morgan, 2005). On the other hand, though, leaving little in-house activity will hurt dynamic capabilities as the internal practice would become scarce and infrequent, which leads to an inability to convert it into new capabilities.

By studying the relationship between marketing outsourcing and second-order marketing competences, this paper makes three contributions. First, we bridge the gap in the dynamic capabilities, organizational learning and outsourcing literature by addressing the rather neglected issue of how companies can improve their marketing capabilities in outsourcing conditions. The study argues that the outsourcing degree has an optimum level that depends on the firm's existing marketing capabilities and its absorptive capacity. This outsourcing degree is meant to balance the knowledge-rich interaction with the expert provider and the in-house marketing activity that internalize the new knowledge into new marketing capabilities.

Second, we provide new means of developing and sustaining competitive advantage. Both dynamic and operational marketing capabilities are regarded as top requisites for a sustainable competitive advantage (Kim, Shin, & Min, 2016). In the short and medium term, firms can maintain their competitive advantages by simply exploiting existing competences and thus gaining marginal improvement. Over the long term though, only the constant accumulation of new marketing competences through dynamic capabilities can guarantee competitive advantage. The conundrum that many companies face is how to pursue and defend a competence-based competitive advantage and still enjoy the benefits of marketing outsourcing.

Third, we provide firms with relevant new criteria for their marketing outsourcing decisions. While the literature has reached maturity in terms of the established criteria for outsourcing, little is known about the effects of outsourcing on capability development under different situations. Our research clarifies the role of the firm's existing stock of marketing competences, its absorptive capacity, and the knowledge intensity of the outsourced function as moderators of the relationship between marketing outsourcing and second-order marketing competences.

2. Research model and hypothesis development

2.1. Marketing outsourcing and second-order marketing competences

Belcourt (2006) defines outsourcing as the contractual relationship for the provision of business services by an external provider. Theory suggests that companies should develop only a few core competences internally in the aspects that are the best drivers of success in their industry, while the noncore competences should be considered for outsourcing (Handley & Benton Jr., 2009). This suggestion raises a minimum of two significant issues. On one hand, according to dynamic capability theory, the success drivers may change over time, leaving the company with an insuperable liability in terms of marketing competences (Hafeez, Zhang, & Malak, 2002; Wang & Ahmed, 2007). On the other hand, the core competences are exactly where exceptional performance is most needed. The urgent pressure to deliver this performance pushes managers to rely on outsourcing without eliminating the need for internal competence development.

These arguments show that firms face the challenge of adding new marketing capabilities to their repertoire while maintaining the outsourcing trend of some marketing functions. One of the few articles studying the link between marketing outsourcing and organizational learning (Park, Lee, & Morgan, 2011) finds a negative relationship between the two. This result is only natural, considering that the lack of internal marketing activity affects the exploitative learning. Nevertheless, the study does not take into account the client firm's opportunity to learn from the expert provider following the explorative path of learning. Moreover, this finding has little pragmatic value, as it is difficult to imagine a reversed macrotrend in outsourcing in the foreseeable future. Instead, scholars must provide a better trade-off that could be seen as beneficial by practitioners.

Additionally, the relationship between marketing outsourcing and organizational learning has only been studied as linear (Park et al., 2011). The empirical evidence on the effects of business outsourcing shows an inverted U-shaped relationship with different performance outcomes (Gimenez-Fernandez & Sandulli, 2017; Grimpe & Kaiser, 2010; Kotabe, Mol, Murray, & Parente, 2012), which suggests that there is an optimal degree of outsourcing, that backfires when surpassed. In line with these findings, Rothaermel, Hitt, and Jobe (2006) argue that successful companies are those that achieve the most effective balance between insourcing and outsourcing.

The same is likely true for marketing functions. As a source of explorative learning, marketing outsourcing yields learning returns that are characterized by uncertainty, unclarity, and temporal remoteness (March, 1991). This makes outsourcing a potentially unsuitable way to develop new marketing capabilities, when used individually. The solution recommended by organizational learning theory is balancing the external knowledge obtained through exploration with the internal activity that will allow the development of new routines and, thus, the

incorporation of this knowledge into new competences. This link between outsourcing and insourcing must be established for every marketing function that is considered for outsourcing in order to avoid the acquisition of new knowledge outside of the scope of new competence development, that would end in organizational forgetting (Miller & Martignoni, 2016).

Organizational learning theory and dynamic capability theory agree on the fact that organizational and individual learning are tightly related, and their interplay is crucial in interorganizational learning (March, 1991; Teece, Pisano, & Shuen, 1997). Hence, despite more interaction with the expert provider would result in more knowledge acquisition, the involvement of marketing employees in the outsourced functions through some degree of insourcing is required for a proper diffusion of the new knowledge and development of new routines. This idea is consistent with an inverted U-shaped relationship between the degree of marketing outsourcing and organizational learning and is further strengthened by dynamic capability theory, which envisages the existence of an organized team inside the company working on a competence-centered objective as a requirement for the founding stage of a new capability (Helfat & Peteraf, 2003). In outsourcing conditions, this team is entrusted to perform the insourcing part of the marketing function with the specific goal of extracting and internalizing valuable knowledge from the interaction with the expert provider, and then converting it into new capabilities.

While marketing service providers occasionally pass new knowledge to client firms, new knowledge does not necessarily imply new marketing competences. To convert into competences, the new knowledge must meet at least one of the following two requisites. First, it must come in a comprehensive and integrative manner that allows the company to implement it autonomously. Of course, the provider has no interest in providing this knowledge that would enable the client firm to become autonomous. Alternatively, the client firm can integrate the bits and pieces of received knowledge in the routines of the in-house marketing activities, leading to new marketing capabilities. In such cases of less articulated and structured knowledge, dynamic capability theory suggests that learning is only feasible through a learning-by-doing approach, which inherently involves some degree of insourcing (Schilke et al., 2018). By doing this, the client firm exploits the fact that dynamic capabilities are not entirely idiosyncratic, but they share common features across companies, in what is known as “best practices” (Eisenhardt & Martin, 2000). This condition is feasible, but it involves maintaining a minimum amount of insourcing. Any reduction below this threshold will result in a disproportionate loss in the acquisition of new marketing capabilities. Under this logic, the inverted U-curve between marketing outsourcing and second-order marketing competences is the outcome of the multiplicative combination between a positive linear function – the amount of knowledge received from the provider – and a negative linear function – the ability to convert it into new marketing capabilities (Haans, Pieters, & He, 2016). Hence, we hypothesize the following:

H1. Marketing outsourcing has a negatively curvilinear relationship with second-order marketing competences.

2.2. The moderating role of first-order marketing competences

As Grimpe and Kaiser (2010) state, in regard to outsourcing, being a good “buyer” also requires being a good “maker”. Firms exploit the competence of their providers much better when they are highly skilled in the outsourced functions, which will allow them not just to make more precise requests to their providers, but also to discriminate between minor differences in the competence of potential providers. In this regard, companies must treat marketing outsourcing as a way to optimize resources, focus on the main success drivers, and not treat it only as an easy shortcut for their marketing plans. Consequently, marketing outsourcing should not be seen as a substitute for the internal capabilities, but rather as a complement to them (Grimpe & Kaiser, 2010).

Companies that have achieved a higher level of marketing competences are likely to benefit more from outsourcing in terms of both practical and learning aspects. A better stock of marketing competences enables firms to place the correct emphasis on the relevant external knowledge in the interaction with marketing providers and to internalize it as new marketing capabilities (Todorova & Durisin, 2007). In this manner, highly skilled firms gain access to an advantageous trade-off in which the lost opportunities for internal learning are compensated or even surpassed by the external learning while still retaining the benefits of marketing outsourcing. Over time, this leads to a growing gap between firms with respect to marketing capabilities and, eventually, competitiveness.

These arguments support the idea that the existing marketing competences interfere in the relationship between marketing outsourcing and second-order marketing competences. This idea is consistent with dynamic capability theory, which suggests that operational capabilities form the ground for dynamic capabilities (Tran, Zahra, & Hugues, 2018). Moreover, according to organizational learning and dynamic capability theories, organizational learning is a cumulative, path dependent process (Eisenhardt & Martin, 2000). This means that the current attempts to develop new marketing capabilities depend on the previous learning efforts focused on a specific marketing function. This is even more true when the source of learning is an expert provider that does not intend to reveal the foundational knowledge of its competences. The client firm must contrast the outsourcing output, deliverables, and fragments of knowledge with its existing marketing capabilities and experience in the outsourced function to identify differential knowledge that is worth assimilating. When the client firm lacks any capabilities and experience, it will be unable to extract meaningful knowledge as it will analyze the service based on false assumptions.

Mol and Kotabe (2011) find that outsourcing is a self-generated phenomenon beyond a certain point, when the initial inertia of slow adaptation is overcome. A possible explanation for this inertia from the perspective of this study is that firms tend to establish their degree of outsourcing at the level that maximizes learning and minimizes costs, or at least in close proximity of this degree. When the degree of outsourcing increases, firms need to internally adjust their first-order marketing competences to match the new circumstances. Consequently, the interference of first-order marketing competences should materialize in the displacement of the inverted U-shaped curve upwards and to the right, which means that a higher level of existing marketing competences would accommodate a higher degree of beneficial outsourcing and that the dynamic marketing capabilities would be enhanced for a given degree of outsourcing. Even in the case of the highest skilled firms in marketing, some degree of insourcing is probably necessary to assimilate the external knowledge into new capabilities. Thus, we expect that the relationship between marketing outsourcing and the development of new marketing capabilities will maintain the inverted U shape. We therefore posit the following:

H2. First-order marketing competences positively moderate the relationship between marketing outsourcing and second-order marketing competences, by shifting the U-curve to the right.

2.3. The moderating role of absorptive capacity

Absorptive capacity is defined as “the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends” (Cohen & Levinthal, 1990). Absorptive capacity materializes into a set of organizational routines and processes (Zahra & George, 2002) that systemize the external learning from other firms and the environment (Aliasghar, Rose, & Chetty, 2018). Absorptive capacity is a multidimensional dynamic capability that allows firms to improve

their existing competences and to develop new ones by integrating externally acquired knowledge into internal processes. The multi-dimensionality feature of absorptive capacity relies on its two distinct components: the potential and realized absorptive capacity. The potential absorptive capacity refers to the acquisition and assimilation of external knowledge. Meanwhile, the realized absorptive capacity is the firm's capacity to leverage the previously absorbed knowledge by transforming and exploiting it (Zahra & George, 2002).

Both dimensions of absorptive capacity are critical for organizational learning when a marketing function is outsourced. Potential absorptive capacity will enable the client firm to extract valuable knowledge from the interaction with an expert provider and even to infer it when the provider proves adverse to sharing excessive knowledge. However, as we have previously mentioned, new knowledge is not equal to new marketing competences. To convert knowledge into competences, the new knowledge must become actionable by developing a set of procedures that enable its implementation or by upgrading the existing ones. This is where the realized absorptive capacity comes into play by making sense of the newly acquired knowledge, solving the potential conflicts with the existing knowledge, and finally, developing the mechanisms to exploit it for better marketing processes and decision-makings (Aliasghar et al., 2018). Overall, absorptive capacity moderates the inverted U-shaped relationship between marketing outsourcing and second-order marketing competences by altering both latent foundations of this relationship: it improves the acquired knowledge for a given outsourcing ratio and it enables its conversion into new capabilities with less in-house activity. Thus, we envisage a moderating effect that displaces the U-curve to the right, without any flattening or steepening effect.

Absorptive capacity is a key concept in both organizational learning and dynamic capability theories. Literature on organizational learning has identified absorptive capacity as one of the main drivers of competitive advantage (Tzokas, Kim, Akbar, & Al-Dajani, 2015). This can be explained through its role of antecedent of explorative learning (Lavie et al., 2010) and facilitator of firms' learning ability in collaboration with external actors (Najafi-Tavani, Najafi-Tavani, Naudé, Oghazi, & Zeynaloo, 2018). A firm that possesses the components of absorptive capacity, such as a climate of openness and sophisticated knowledge scanning mechanisms, will acquire new knowledge more efficiently, even from firms outside its business network (Tu, Vonderembse, Ragu-Nathan, & Sharkey, 2006). For instance, in marketing, absorptive capacity helps firms to improve the selection and implementation of their marketing strategies by learning from the industry's experience with respect to successes and failures (Zahra, Criaco, Naldi, & Larraneta, 2015).

Dynamic capability theory makes a step forward by connecting absorptive capacity not just with knowledge acquisition, but also with competence development (Zahra & George, 2002). This further strengthens the role of absorptive capacity, as competences are largely idiosyncratic, and thus, unlike knowledge, inimitable. In the context of outsourcing, trying to copy some of the provider's competences is an outstanding challenge, given that these are the result of experience and an unremitting focus on service improvement, besides its knowledge base. However, the outsourcing of a marketing function prevents the firm from learning by doing, which closes the path of exploitative learning. In the outsourcing trade-off, the firm loses the experience that would lead to internal knowledge creation and retention, and, eventually, to new or improved marketing capabilities (Argote & Miron-Spektor, 2011). Left only with the option of external learning, organizations need exceptional absorptive capacity to internalize the meaningful knowledge from their interactions with expert providers.

Although not part of our theory, we acknowledge that, in the spirit of the dynamic capability theory, absorptive capacity is connected with the first-order marketing competences within a feedback loop (Todorova & Durisin, 2007). That is, absorptive capacity is a function of the existing capabilities, but these also facilitate the accumulation of new knowledge. Additionally, scanning the environment to find successes and failures in the industry increases absorptive capacity (Danneels, 2008). Nonetheless, absorptive capacity encompasses much more than only the existing knowledge and skills of a firm, as in Cohen and Levinthal's (1990) initial conceptualization, which means that highly competent firms with a poor absorptive capacity, or vice versa, are not uncommon (Danneels, 2008). This is possible due to the internal determinants of absorptive capacity, such as the corporate culture (Harrington & Guimaraes, 2005), the training of personnel, and the attitudes towards change (Murovec & Prodan, 2009). Organizational learning theory identifies these factors among cultural, strategic and structural facilitators of organizational learning (Bapuji & Crossan, 2004). These factors can either leverage whatever marketing competence the firm would have or waste a developed stock of competences and resources. Therefore, we argue that:

H3. Absorptive capacity positively moderates the relationship between marketing outsourcing and second-order marketing competences, by shifting the U-curve to the right.

2.4. The moderating role of knowledge intensity

While marketing as a whole is regarded as one of the most knowledge-intensive activities of a firm (Morgan, 2012; Strambach, 2008), the different marketing tasks that must be performed greatly differ in this respect. Functions such as market research, new product development, and media planning are examples of knowledge-intensive matters in marketing. The outsourcing of these functions involves a high emphasis on the provider's knowledge, which delivers a knowledge-concentrated service that is oriented towards problem solving (Muller & Zenker, 2001). When outsourced, firms primarily seek the provider's expertise to perform the task at a high level. However, the client firm needs to have at least a decent level of competence in that matter to make sense of the business service it gets, and thus acquire new knowledge. Furthermore, the same requisite is needed for the proper participation of the client firm in service co-creation, which would lead to a better quality business service (Santos & Spring, 2015).

Other marketing tasks, such as event management or in-store promotions and merchandising, are relatively less knowledge-intensive and more practice-oriented. The main reason to outsource these kinds of marketing tasks is to reduce costs and to focus on managing the key success drivers. Unlike the knowledge-intensive functions, the outsourcing of these marketing tasks entails a practical deliverable, such as the implementation of a campaign or the organization of an event. While it is true that these services are not knowledge-free, their delivery implies a larger share of business contacts and experience from the provider. Additionally, the knowledge transfer from the provider to the client firm is more implicit, as most of the provider's decision-making is openly reflected in the final service.

These two types of marketing functions should pose different challenges in terms of organizational learning when outsourced. While neither organizational learning theory nor dynamic capability theory explicitly mention knowledge intensity as a contingency of organizational learning and new competence development, both contain implicit ideas in this sense. Research on organizational learning points out that different activities and decisions inside a company involve different amount and complexity of the required knowledge (Bierly, Kessler, & Christensen, 2000). To qualify as a new capability, an activity must reach at least a minimum threshold of functionality (Helfat & Peteraf, 2003). To accomplish this condition established by dynamic capability theory, the marketing department must first master the underlying knowledge of the new marketing capability. The ease and time to achieve this level in an outsourcing setting is clearly a function of the knowledge intensity of the outsourced marketing function.

Thus, it is expected that the acquisition of second-order marketing competences will prove more difficult in the case of the knowledge-

intensive marketing functions. As we mentioned earlier, the main reason for firms outsourcing knowledge-intensive functions is to benefit from the provider's expertise. Consequently, it is only natural that facilitating the client firm's development of second-order marketing competences is not in the best interest of the marketing service provider (Teo & Bhattacherjee, 2014), which adds to the intrinsic difficulty of assimilating complex knowledge and converting it into new capabilities when the marketing department is not in charge of the implementation. We thus predict the following:

H4: Knowledge intensity negatively moderates the relationship between marketing outsourcing and second-order marketing competences, by shifting the U-curve to the left.

2.5. Control variables

Despite not being the focus of our study, firm size, age, and industry can interfere in the second-order marketing competences, as argued by Danneels (2008). Larger firms are bound to experience learning inertia that will be reflected in an increased difficulty of converting knowledge into capabilities. Older firms are generally more resistant to new knowledge, and, hence, are less interested in engaging in explorative learning (Lavie et al., 2010). Finally, organizational learning has its peculiarities depending on the industry that can affect the development of new marketing competences from external sources.

The hypothesized relationships of this study are depicted in Fig. 1.

3. Methodology

3.1. Empirical setting and data collection

The empirical study considered the outsourcing of two marketing functions that have different levels of knowledge intensity: marketing research and analytics, and in-store promotion and merchandising. Marketing research and analytics are knowledge-intensive marketing functions since they meet the three features of a KIBS suggested by Muller and Zenker (2001): a) high intellectual value-added, b) a problem-solving focus, and c) a strongly interactive or client-related character of the service provided. By applying the same criteria to in-store promotion and merchandising, the lack of intellectual substance of the service is apparent, which clears its profile of low knowledge intensity.

To develop the sampling frame, we used the database of a large consulting company comprising 388 Mexican firms that outsourced marketing research and analytics projects between 2013 and 2016 and 506 Mexican firms that outsourced in-store promotion and merchandising in the same period. To ensure that the observations were independent, we screened the database to find duplicates in the two groups. 87 firms were found in both groups, and they were randomly eliminated from one of them.

After this screening, 807 firms were approached via e-mail with a cover letter that explained the purpose of the study, assured confidentiality, and asked for their participation in the study. A complete research report was offered as an incentive to increase participation. In the cover letter, we also clarified that the questionnaire has two parts that had to be responded independently by two knowledgeable marketing employees/managers. Thus, we employed the multiple informant approach, following the recommendations of Hulland, Baumgartner, and Smith (2018) to avoid common method bias a priori. We received positive responses from 337 firms to which we sent the survey questionnaire by e-mail or provided it in person, according to the preference of each firm. The questionnaire instructions asked for a more highly ranked person – ideally, the marketing manager – to complete the second part of the questionnaire that comprised the items related to the dependent variable. For the first part of the questionnaire that comprised all the other items, the recommended feature for the informant was a minimum of four years of seniority in the current firm. The average seniority was 7.3, with only 15 firms violating the recommended level. A time lag between the two parts of the questionnaire was employed to lessen the risk of reversed causality. Since the research topic is prone to social desirability, the instructions for both informants were to reflect the true situation of their firm, while emphasizing confidentiality. We sent two reminders by e-mail after one and two months, respectively, along with a list of potential insights of the study and a video of good humor at work as additional incentives. Finally, we gathered 257 completed questionnaires, representing a response rate of 31.8%. We dismissed the nonresponse bias by finding no significant differences between responding and nonresponding firms in the means of their general characteristics, such as the total assets and the number of employees. To avoid losing observations, we contacted the firms that had returned the paper questionnaire with missing data. Despite our follow-up efforts, four observations had to be eliminated due to the lack of feedback and a rate of > 15% for missing data. Of the 253 usable questionnaires, 112 were related to the outsourcing of marketing research and analytics and 141 to the outsourcing of in-store promotion and merchandising.

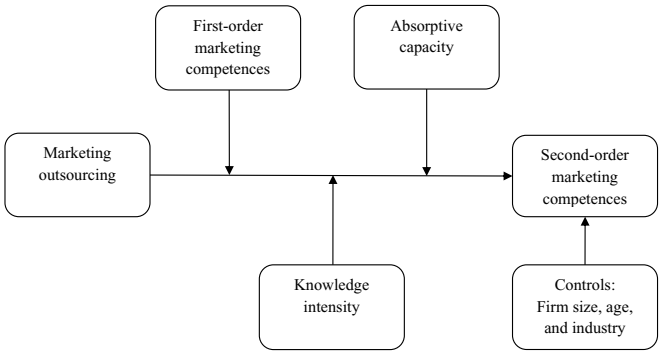

Fig. 1. Conceptual model.

3.2. Measures

Marketing outsourcing was assessed through the actual level of outsourcing, as done by Park et al. (2011) and Leachman, Pegels, and Shin (2005), rather than through perceptual measures. The actual level of outsourcing was measured using a single item that expressed the outsourcing ratio of the marketing function in question between 2013 and 2016. While single-item measures are generally less reliable, they are recommended when measuring objective constructs, with both the measurement object and the measured attribute being concrete (Hulland et al., 2018). In this sense, we provided extensive guidelines – both verbal and mathematical – in the questionnaire on how to identify the outsourcing ratio. These guidelines considered the percentage of outsourced labor in every project – which was zero for the non-outsourced projects – and the project's relative size. Mathematically, this can be expressed as following:

$$Outsourcing\ ratio = \frac{\sum_{i=1}^{n} (OL_i \times RS_i)}{n}$$

where OL_i is the percentage of outsourced labor of the project i, RS_i is the relative size of the project i, and n is the firm's total number of projects of marketing research and analytics/in-store promotion and merchandising between 2013 and 2016.

First- and second-order marketing competences were captured using adapted versions of the measures proposed by Danneels (2016). The adaptation was needed to reflect the specific competences of marketing research and analytics/in-store promotion and merchandising (see Appendix A). The items were rated on a 7-point Likert scale (1 = *strongly disagree*, 7 = *strongly agree*).

Consistent with the conceptualization of Zahra and George (2002), we measured absorptive capacity using the four items proposed by Solís-Molina, Hernández-Espallardo, and Rodríguez-Orejuela (2018), one for each component: acquisition, assimilation, transformation, and exploitation. We used a 7-point Likert scale for each of the four items. In this manner, we assess both the potential and realized absorptive capacity. As stated earlier, both dimensions are critical in converting external knowledge into new marketing competences, leading us to value the total variance of each item, and not only the shared variance (Law & Wong, 1999). As a result, in line with the prescriptions of Diamantopoulos, Riefler, and Roth (2008), we treated these items as formative measures of absorptive capacity. That is, each item refers to a different aspect of the construct's domain, which makes the indicators not interchangeable. Consequently, item purification due to low item-to-total correlations changes the meaning of the construct, resulting in misspecification bias. In addition to the four items, we also used the global single item "The firm has the ability to recognize the value of new, external information, assimilate it, and apply it to commercial ends". This item has enabled us to test the convergent validity of the formative construct through the new approach of redundancy analysis (Cheah, Sarstedt, Ringle, Ramayan, & Ting, 2018).

4. Results

Considering the characteristics of our model, especially the non-linear relationship and the formative construct, partial least square structural equation modeling (PLS-SEM) was the most appropriate method to test our hypotheses (Sarstedt, Hair, Ringle, Thiele, & Gudergan, 2016). The use of this method implies a two-stage approach, starting with the measurement model that ensures that the findings are based on valid and reliable data, and ending with the structural model that tests the research hypotheses.

4.1. Measurement model

For the constructs with reflective measures, we established convergent validity and internal consistency through exploratory factor analysis, where all the factor loadings were > 0.70 (Carmines & Zeller, 1979) and confirmatory factor analysis, which provided AVE superior to the 0.50 benchmark (Fornell & Larcker, 1981). The discriminant validity was suggested by comparing the square root of AVE with the inter-construct correlations, for every latent variable (see Table 1). Acknowledging the recently discovered shortcomings of the classical Fornell-Larcker criterion in revealing the lack of discriminant validity (Henseler, Ringle, & Sarstedt, 2015), we reinforced it with the more rigorous heterotrait-monotrait (HTMT) analysis, which confirmed the discriminant validity. Composite reliability was analyzed by comparing it with the 0.80 baseline proposed by Nunnally (1978), both reflective constructs showing good reliability.

For the formatively specified construct, we aligned to the work of Diamatopoulos et al. (2008), who state that multicollinearity is a major issue that has to be considered. Variance inflation factors (VIF) calculated for every observed variable inside the construct were below the conservative threshold of 3 (Grewal, Cote, & Baumgartner, 2004), which proves that multicollinearity does not affect the measurement. To assess the convergent validity of the formative measures, we performed a redundancy analysis using a global single item as benchmark. The correlation between the composite scores of the formative items and the global single item was 0.877, above the minimum level of 0.8 recommended by Cheah et al. (2018). Knowledge assimilation (weight = 0.422) and exploitation (weight = 0.305) contributed the most to the measurement of absorptive capacity, but all four dimensions had significant weights (see Table 2).

Table 2
Measurement model results.

Construct/item	Mean	SD	VIF	Weight	Loading	CR	AVE
Second-order marketing competence (SOMC)						0.966	0.85
SOMC1	3.704	2.110			0.963		
SOMC2	3.692	2.087			0.941		
SOMC3	3.660	2.120			0.927		
SOMC4	3.617	2.124			0.941		
SOMC5	3.751	2.094			0.833		
First-order marketing competences (FOMC)						0.941	0.801
FOMC1	3.881	2.012			0.929		
FOMC2	3.909	2.075			0.93		
FOMC3	3.834	2.059			0.919		
FOMC4	3.953	2.111			0.795		
Absorptive capacity (AC)						N.A.	N.A.
AC1	5.364	1.659	2.196	0.224			
AC2	4.7	1.894	2.31	0.422			
AC3	4.158	2.109	1.937	0.227			
AC4	4.518	1.983	1.823	0.305			

4.2. Structural model

To test our hypotheses, we first evaluated the relationship between marketing outsourcing and second-order marketing competences (Model 1). Then, we assessed the moderating roles of first-order marketing competences (Model 2) and absorptive capacity (Model 3) (Table 3). Finally, we performed a multi-group analysis to contextualize our findings across the low and high levels of knowledge intensity (Table 4).

As expected, we found that marketing outsourcing has a negatively curvilinear effect on second-order marketing competences. The quadratic term is negative, relatively high, and strongly significant, while the linear term is significant as well. To rigorously establish the quadratic relationship, we followed the procedure recommended by Lind and Mehlum (2010). We found that the slope at the low end of the independent variable was positive and significant ($Y' = 1.41$, $p < .01$), while the slope at the high end was negative and significant ($Y' = -1.05$, $p < .01$). Additionally, setting the first derivative to

Table 1
Correlations between constructs.

	1	2	3	4	5	6	7
1. Marketing outsourcing	*N.A.*						
2. First-order marketing competences	−0.304	*0.895*					
3. Second-order marketing competences	0.079	0.361	*0.922*				
4. Absorptive capacity	0.150	0.256	0.801	*N.A.*			
5. Size	0.031	0.082	0.141	0.185	*N.A.*		
6. Age	0.078	−0.073	−0.028	0.006	0.275	*N.A.*	
7. Industry	−0.067	0.020	0.152	0.173	−0.016	−0.208	*N.A.*

Note: The numbers in italics on the diagonal are the square root of the AVE; off-diagonal numbers are correlations among constructs; N.A. = not applicable.

Table 3
Structural model results.

	Model 1	Model 2	Model 3	Model 4
Marketing outsourcing	0.229 (0.001)	0.209 (0.002)	0.202 (0.004)	0.27 (0.000)
Marketing outsourcing (quadratic effect)	−0.344 (0.000)	−0.315 (0.000)	−0.348 (0.000)	−0.365 (0.000)
First-order marketing competences	0.126 (0.002)	0.127 (0.002)	0.121 (0.002)	0.077 (0.052)
Absorptive capacity	0.682 (0.000)	0.676 (0.000)	0.678 (0.000)	0.735 (0.000)
Size	−0.011 (0.845)	−0.013 (0.809)	−0.007 (0.898)	−0.018 (0.753)
Age	−0.019 (0.61)	−0.023 (0.52)	−0.019 (0.616)	−0.019 (0.607)
Industry (dummy)	[−0.01; 0.065] (0.976; 0.815)	[0.023; 0.097] (0.986; 0.952)	[−0.014; 0.073] (0.991; 0.944)	[0.048; 0.121] (0.973; 0.94)
Marketing outsourcing × First-order marketing competences		0.081 (0.028)		
Marketing outsourcing × Absorptive capacity			0.081 (0.027)	
Marketing outsourcing × First-order marketing competences × Absorptive capacity				0.119 (0.001)
R^2	0.769	0.775	0.774	0.784
ΔR^2		0.006	0.005	0.015

Table 4
High versus low knowledge intensity – multi-group analysis.

Path	High knowledge intensity		Low knowledge intensity		Difference	
	β	*p*-value	β	p-value	β	p-value
MO→SOMC	0.191	0.018	0.286	0.003	0.095	0.225
MO→SOMC (quadratic effect)	−0.336	0.000	−0.379	0.000	0.043	0.316

zero showed that the turning point is located close to the median, at an outsourcing ratio of about 78%. Hence, hypothesis H1 is supported. Both first-order marketing competences and absorptive capacity have positive moderating roles that are statistically significant ($p < .05$), which support H2 and H3, respectively. We observed that the quadratic effect maintains its high, negative value and significance when any of the moderators were included. Little changes can be noticed in the case of the quadratic effect, which shows that the U-curve does not flatten nor steepen. Thus, the moderating effects only act by displacing the U-curve to the right.

Nonetheless, both moderating effects had marginal values resulting in a weak effect size of between 13 and 15%, making our practical contributions less appealing to managers, since they would have only trivial value in pragmatic terms. We thus decided to perform a post-hoc analysis to assess the joint effect of first-order marketing competences and absorptive capacity when interacting with marketing outsourcing. We standardized the variables prior to creating the interaction term, as suggested by Henseler and Chin (2010). As Model 4 shows, the first-order marketing competences and absorptive capacity are together much stronger moderators of the main relationship than they are separately. The effect size in this case reaches 24.5%.

The multi-group analysis reveals that the level of knowledge intensity of the outsourced function does not moderate the relationship between marketing outsourcing and second-order marketing competences (Table 4), thus rejecting hypothesis H4.

Since studying the impact of any strategic decision on organizational performance is theoretically affected by simultaneous or dynamic endogeneity (Abdallah, Goergen, & O'Sullivan, 2015), we compared the model fit indices for the proposed model and the reversed causality model. Table 5 shows that, while the data explains well the hypothesized relationship, it provides no support for the reversed causation model. These findings alleviate the risk of endogeneity, without ruling it out completely. However, if we also consider the time lag between the measurement of the independent and dependent variables as a methodological effort to avoid reversed causality, the possibility of endogeneity affecting our findings was substantially lowered.

5. Discussion

5.1. Theoretical implications

This is the first research to establish the conditions of a favorable relationship between marketing outsourcing and the acquisition of new marketing competences. We found that the existing marketing competences and the absorptive capacity have the power to individually and, even more, jointly alleviate the inherently negative effect that marketing outsourcing has on organizational learning. Thus, the study adds to the empirical findings of Park et al. (2011) that set the outsourcing of marketing functions as a deterrent of market-based learning by showing that the former has an inverted U-shaped relationship with second-order marketing competences. In this light, marketing outsourcing is not an inhibitor of organizational learning, but rather is a business parameter that has to be carefully set to an optimal level, according to the existing marketing capabilities and the absorptive capacity of the firm.

In-house marketing competences and marketing outsourcing are complementary in the development of second-order marketing competences. Firms that enjoy high levels of marketing capabilities and absorptive capacity can increase their degree of marketing outsourcing without hurting their ability to assimilate new competences from their interactions with expert providers. This finding contributes to the literature of dynamic capabilities by showing how a firm can combine internal and external knowledge more efficiently to develop dynamic marketing capabilities. However, a small degree of in-house marketing activity is necessary even for these firms to practice the new competences, thus closing the learning circle. This implication was made clear by the constantly strong and significant curvilinear effect in any moderation scenario, which proves that the full outsourcing of a marketing function is never a good idea in terms of explorative organizational learning.

The same finding suggests that failing to establish the outsourcing rate at its optimum level or in close proximity to it has disproportionate consequences in terms of second-order marketing competences. This is true not only for the companies that exaggerate this ratio and leave very

Table 5
Fit indices for the proposed and the reversed causality model.

Model fit indices	Proposed model	Reversed causality model
Normed-fit index (NFI)	0.994	0.817
Standardized Root Mean Square Residual (SRMR)	0.009	0.101
Chi-square	2.116	67.336

little in-house activity but also for those that underuse the potential of outsourcing by limiting it unnecessarily.

The empirical support for hypothesis H1 is consistent with the conclusions of Kotabe et al. (2011) that marketing outsourcing has a negative curvilinear effect on market share. When analyzed from different angles, the outsourcing of marketing functions proves to behave in similar ways. Regardless of if the firm's main focus is market share, costs, or organizational learning, marketing outsourcing must be restricted below a certain threshold to yield positive outcomes. The same is true even at a more general level if we add the parallel conclusions of Leachman et al. (2005) on manufacturing outsourcing, or those of Rothaermel et al. (2006) regarding strategic outsourcing.

Our study also confutes the anecdotal belief that in marketing functions with low knowledge intensity, the development of new marketing capabilities is easier to achieve by means of outsourcing. According to our findings, in all marketing functions, irrespective of their knowledge intensity, the acquisition of new marketing competences proves to be an outstanding challenge in outsourcing conditions. However, the challenge does not reside in the volume and complexity of the required knowledge, but rather in developing the underlying organizational routines and microfoundations (Teece, 2007).

The study provides firms with new means for developing and sustaining competitive advantage. The combination of externally sourced knowledge with the firm's existing knowledge has been widely accepted as crucial to this end (Danneels, 2012; Day, 2014), but the literature has only considered strategic alliances and acquisitions as external sources of network-level effects when building dynamic capabilities (Rothaermel & Hess, 2007). We show the critical importance of outsourcing for developing and sustaining competitive advantage. Specifically, our findings reveal the unique circumstances that make the partial outsourcing of marketing functions compatible with the development of a competence-based competitive advantage. In this sense, we provide valuable insight on how to manage favorable relationships with one of the top sources of knowledge in the external environment, namely, the expert marketing service providers.

5.2. Managerial implications

The findings of this paper reveal various insights that are of special relevance for practitioners. First, firms must become aware of the importance that organizational learning has as a criterion in the outsourcing decision. Managers should decide to (partially) outsource a marketing function not only to cut costs or to focus on firm's core competences but also to engage in explorative learning that would eventually result in new marketing competences. The general view among firms is either that learning naturally happens in contact with an expert provider or that it is part of the opportunity costs of outsourcing. Neither view is valid in light of our findings. The acquirement of new marketing capabilities is achievable when outsourcing a marketing function, but it is the direct consequence of the outsourcing rate of that function. The higher the current marketing competences and absorptive capacity levels, the higher the degree of marketing outsourcing that a firm can establish without affecting its explorative learning.

For firms with low marketing competences that plan to outsource an important part of their marketing, we recommend a roadmap that would prepare them to absorb more knowledge from its marketing service providers and that would even enable a beneficial increment in the outsourcing degree. First, the firm must improve its absorptive capacity by using all the organizational means that the literature provides, such as an open organizational culture. Thus, the firm will attain the propitious mindset for the assimilation of new marketing knowledge by starting with the handiest tools. Meanwhile, the firm must also internally improve its marketing capabilities by means of new hiring, training, continuing education, and critical analysis, among others, further strengthening the absorptive capacity of the firm. As the first-order marketing competences and absorptive capacity improve, the manager should gradually outsource different tasks related to a marketing function. During this last step, the manager has to overcome a plethora of shortcomings that drive the inertia of the whole process (Mol & Kotabe, 2011). Given the highly demanding roadmap that must be completed, firms should follow it for only one marketing function at a time.

For firms that already have a high degree of marketing outsourcing meant to replace internal competences, the first step is hiring marketing personnel to prepare for an increase in marketing insourcing. This step is the only solution for firms that are down on the negative part of the inverted U shape. These firms cannot efficiently engage in external learning due to their poor level of marketing competences, nor can they engage in internal learning due to having little marketing in house. Additionally, this kind of firm usually receives the worse service from marketing providers, which means that they do not benefit in terms of marketing learning nor in the implementation (Lacity & Willcocks, 2017).

Finally, the firms that have already reached high levels of marketing competences and absorptive capacity are in the position to harness the potential of outsourcing. Firms that have little room for improvement through internal learning should shift their focus to external sources, such as marketing service providers, to gain the additional knowledge that will place them at the vanguard of marketing competences. With only a minimum share of in-house marketing, these firms will acquire an extensive gap in their marketing competences in comparison with their competitors.

5.3. Limitations and future research

This paper has a number of limitations that must be acknowledged. First and foremost, we used a cross-sectional survey to gather data. Given that marketing outsourcing clearly has a lagged effect on second-order marketing competences, a longitudinal panel data would be a more appropriate method for data collection. We preferred the benefits of analyzing historical facts – the marketing outsourcing and explorative learning from 2013 to 2016 – but avoiding the high mortality rates that are common in longitudinal studies. Nevertheless, future research should overcome the difficulties of collecting longitudinal data to obtain more precise results on how new marketing capabilities are developed over time.

Second, despite the theoretical arguments that highlight marketing outsourcing as an antecedent of second-order marketing competences, we cannot rule out reverse causality. In fact, when the outsourcing is driven by the search for expert know-how, the acquisition of new marketing competences may decrease the outsourcing rate. In the absence of appropriate instrumental variables, we lowered the risk of reverse causality by considering a time lag between the data collection for the independent and dependent variables and showing that the empirical fit of the reverse causality model is poor. However, we have to acknowledge endogeneity as a limitation of our study. Future research should more thoroughly investigate the relationship between marketing outsourcing and second-order marketing competences to learn how it evolves over time. Moreover, scholars are encouraged to explore alternative explanations for the development of new marketing capabilities, to gain a holistic understanding of this intricate phenomenon.

The third limitation concerns the limited extent of our empirical data, that was collected only from Mexico, which only gives us a narrow perspective of the emerging markets. As the outsourcing decision is dependent on the availability and quality of the local marketing service providers, it is likely that one gets significantly different pictures when studying firms from developed or underdeveloped economies. Thus, replications of this study in different economies or based on cross-country samples are highly necessary to gain a deeper understanding of the issue at hand.

Finally, this study only focuses on the acquisition of new capabilities

by means of outsourcing, but it offers no clue on how existing capabilities are further developed by leveraging the relationship with an expert provider. Scholars have the challenge to provide a deeper understanding on how marketing outsourcing helps the advancement of an existing capability through its lifecycle (Helfat & Peteraf, 2003).

6. Conclusions

This paper explores the development of new marketing capabilities in the context of marketing outsourcing. We contribute to the extant literature by showing that marketing outsourcing has an inverted U shape impact on second-order marketing capabilities. Moreover, we find that the existing marketing capabilities, the firm's absorptive capacity and their interaction positively moderate this relationship.

The call to action of this paper for managers is to invest in the internal development of marketing capabilities and to insure a responsive organizational culture before starting to outsource marketing functions. In other words, firms should behave like "lone wolves" until achieving at least decent levels of marketing capabilities and absorptive capacity and then gradually transform into "social monkeys". Only the firms that follow this path will be able to close the gap between their marketing capabilities and the accelerated complexity of markets (Day, 2011), thus achieving a sustainable competitive advantage.

In addition to the recommendations of McGovern and Quelch (2005) to "become expert ring-masters who cherry-pick, develop, and monitor an integrated network of outside suppliers that brings new capabilities to the marketing effort", our paper highlights the importance of converting marketing outsourcing from a simple short-sighted way to benefit from the external competence into an opportunity for organizational learning that can provide long term benefits for the company.

Acknowledgments

The authors would like to thank John Hulland for his comments on earlier versions of the paper and the two anonymous reviewers for their insightful suggestions that have helped improve the final manuscript.

Appendix A. Measures

First-order marketing competences (reflective construct)	
To what extent would you agree with the following? (1 = *strongly disagree*, 7 = *strongly agree*)	
FOMC1	My company is good at conducting marketing research/ implementing in-store promotion campaigns.
FOMC2	My company performs well in terms of marketing research and analytics/ in-store promotion campaigns and merchandising.
FOMC3	I work for a company with high competence in marketing research and analytics/ in-store promotion campaigns and merchandising.
FOMC4	Marketing research and analytics/ In-store promotion campaigns and merchandising are a strong aspect of my company's competences.
Second-order marketing competences (reflective construct)	
To what extent would you agree with the following? (1 = *strongly disagree*, 7 = *strongly agree*)	
SOMC1	My company is good at integrating new research methods/ new in-store promotion techniques in its toolkit.
SOMC2	The company constantly learns new ways to perform marketing research and analytics/ in-store promotion and merchandising.
SOMC3	The company explores and adds new research techniques of marketing research and analytics/ in-store promotion and merchandising.
SOMC4	My company enhances its base of marketing research methods/ in-store promotion techniques.
SOMC5	Gaining knowledge about new ways of studying the market/ of engaging the clients in-store is a prominent feature of my company.
Absorptive capacity (formative construct)	
Express your agreement or disagreement to indicate whether the company can… (1 = *strongly disagree*, 7 = *strongly agree*)	
AC1	Identify and acquire the external knowledge required.
AC2	Understand, analyze, and interpret the new external knowledge.
AC3	Combine internal knowledge to new external knowledge.
AC4	Apply the new external knowledge to commercial ends.
ACg	The firm has the ability to recognize the value of new, external information, assimilate it, and apply it to commercial ends.

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