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June 2010 – The CMO can make a difference

In many firms, the job of chief marketing officer (CMO) is in great peril: a recent survey reported that the average tenure of CMOs in large firms is a scant 23 months. Rajesh Chandy examined the reasons why and found out what it takes to be a CMO of consequence.

Because the CMO is the most direct steward of a firm's customers and since customers are one of the few stakeholders who actually provide revenues that keep a firm running, the job of CMO is one of great responsibility.

To be a high-performance CMO requires not only the collection and dissemination of market information but also the design and implementation of marketing strategies that can be executed throughout the firm with success. Most importantly, the CMO is the executive most responsible for the management of relationships with critical stakeholders. And when it comes to new and existing major clients, his or her negotiation skills usually play an essential role in generating sales revenue.

Thus, every CMO has informational, decisional and relational roles that come with the title. But CMOs seldom last long in their prestigious jobs. The short shelf life of such a senior executive position triggered a fascinating study.

Working with D. Eric Boyd of the University in Virginia and Marcus Cunha Jr. of the University of Washington, I examined the impact of a set of newly hired CMOs by asking the question: How did their appointment affect the stock value of the company? The answer revealed that the chief marketing officer is far from irrelevant to the financial performance of any firm; yet, it also revealed why CMOs can falter so fast.

Ultimate middleman

The CMO, by design, finds himself squarely between the interests of the firm that employs him and the major customers who buy from that firm. That's because the CMO is responsible for understanding the concerns and interests of customers and ensuring that the voice of this critical stakeholder group is heard.

But customers are not inert actors. They have financial power over firms, and they are often willing to use this power to influence decision making. Thus, the CMO can quickly become the ultimate middleman forced to represent a large customer's demands or requests, which usually requires his interface with other executives in the firm. That's seldom an easy chore.





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The push by powerful customers to focus a firm's financial, human and capital resources on activities catering to their current needs can pressure a CMO into a pattern of making short-sighted decisions to please the powerful customer. Additionally, fear over losing the revenue or connections provided by a powerful customer can cause the CMO (and the firm) to focus solely on one customer's interests at the expense of other customers or the loss of scarce company resources. The resulting disequilibrium within the firm reflects on the CMO, and he or she shoulders the blame.

However, not all CMOs are equally debilitated by the effects of customer power. Our research suggests at least two key factors help some CMOs manage more effectively.

One such factor is whether the CMO is an insider or an outsider to the firm: an outsider often has the neutrality (and the confidence) to stand up to both a powerful customer as well as internal executives who are inured to the old ways of doing business.

Another important factor is the amount of experience the CMO brings to the firm: if a CMO has sold to a wide array of customers, he is far more inclined to have enough customer contacts that the loss of any one account is never a cause to end his career — or crash his company's revenues.

CMOs of consequence

Finding CMOs who made a major difference in their firms was the primary point of our research and yielded a number of surprising discoveries. We tested the core value of new CMOs while excluding other corporate positions. To do this, we first identified all announcements of CMO appointments appearing in major daily newspapers and wire services such as The Wall Street Journal, PR Newswire and Dow Jones Newswire between the years 1996–2005. We only included those specifically appointed to the position of "chief marketing officer". The final sample consisted of 88 CMOs, and we attempted to find out how performance variables (especially, a firm's stock price) were impacted by the appointment of a new CMO. (More information about our research is readily available at <http://faculty.london.edu/rchandy/cmo.pdf>.)

Here are the primary questions we asked and what our research revealed, in brief:

Does a CMO affect firm performance? Yes, but with this caveat: on average, the appointment of a CMO in the presence of high customer power actually reduces firm value. On the other hand, the appointment of a CMO when customer power is low creates firm value.

How much does experience count? Investors appear to recognise that an experienced CMO can limit the effect of customer power on managerial discretion. Thus, an experienced CMO is seen as a boon to the future of a firm.





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Do CMOs who are appointed from within the firm fall victim to customer power in a way that limits their managerial discretion? Based on our research, the answer seems to be yes. Further, investors penalised a firm for appointing an insider to the CMO position in high customer power conditions.

How much of a role does market scope play? As we postulated, the effect of customer power is less when a CMO's firm has a larger scope. The return associated with the appointment of a CMO is greater — even when the firm faces high customer power — if the appointing firm has an above-average level of scope.

In high customer power situations, do CMO appointments by larger firms create less value than those by smaller firms? Yes. Evidence suggests that investors factor in the resistance to change and low level of individual autonomy in larger firms — and recognise these factors potentially exacerbate the effect of customer power.

Do CMOs impact a firm's value? Their contributions are far from uniform. Indeed, in only 46 per cent of the cases in our study was the stock market response to the appointment of a CMO positive; meaning that, in 54 per cent of the cases, the response was negative. We argue that the contributions of CMOs to firm value are highly contingent on the managerial discretion available to them in performing their informational, decisional and relational roles.

As with the success of any corporate executive, many factors come into play. Yet, with CMOs, the success of the person in that role is keenly related to his past experience, the present business context and the nature of the customer base. CMOs can affect firm value in a unique way; but, first, the firm must be sure the right kind of person is named to the office. When the fit is right, the CMO can be an executive of great consequence.

Rajesh K. Chandy (rchandy@london.edu) is Professor of Marketing, Tony and Maureen Wheeler Chair in Entrepreneurship, and Academic Director of the Institute for Innovation and Entrepreneurship at London Business School.

