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**MARKETING AND PERFORMANCE:
A THEMATIC STUDY OF FIRMS IN THE UK AND GHANA**

KWAKU APPIAH-ADU

BSc(Hons) Dip Arch MBA DipM MCIM RIBA

PhD by Published Works

**A thesis submitted in partial fulfilment of the requirements of The University of Middlesex
for the degree of Doctor of Philosophy**

1998

This thesis is dedicated to

my parents for their instruction
my wife, Nana Keegya for her prayers
my children, Afua and Kwaku (and any future arrivals) for putting up with me
and to the Lord Jesus Christ for His wisdom and guidance

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ABSTRACT

The issue being investigated in this thesis concerns the extent to which marketing practices impact upon business performance and how the competitive environment influences the market orientation-performance relationships in an industrialised nation and a developing economy. This thesis takes as its underlying theoretical framework, the marketing-performance paradigm of marketing strategy theory and practice and involves a thematic study of marketing practices, their relevance in different environmental scenarios and effects on a variety of performance measures. In order to determine the universal importance of marketing principles, the effects of various facets of marketing such as marketing culture, marketing effectiveness and market orientation on both customer-based and financial performance indicators, are investigated in the United Kingdom (UK) and Ghana. The contribution to knowledge stems from the systematic application of marketing principles to describe the behaviour of firms in a range of businesses and, on the basis of primary data, determine whether firms that engage in sound marketing practices, are characterised by relatively higher performance levels irrespective of the environment.

This thesis contains eight empirical papers, one case study and one conceptual article on the UK and Ghana and the findings have been published/scheduled for publication in key internationally refereed journals in the management/marketing fields. Within the UK context, issues relating to marketing culture, marketing effectiveness and their effects on various performance dimensions are explored. Moreover, the concept of market orientation, its impact upon measures of business effectiveness, efficiency and adaptability, and the extent to which environmental factors influence these relationships are examined. Sectors to which specific marketing constructs could be appropriately applied are selected for survey. These include marketing effectiveness in large organisations (over 500 employees), marketing culture in service firms, and market orientation in the small business (10 to 50 employees) and high technology (biotechnology) sectors. This approach facilitates a comprehensive testing of these different but related constructs in diverse contexts and provides useful conclusions on the efficacy of marketing principles in business practices.

In the context of Ghana, the role of marketing is examined against the background of the International Monetary Fund's (IMF) structural adjustment policies (SAP). This is followed by a study of the effects of corporate culture on market orientation and a case study on performance of firms which have adapted successfully to the changes taking place in Ghana's liberalised economy through effective implementation of SAP-tailored marketing strategies. In addition, a comparison of the marketing activity-performance association among foreign and domestic firms is undertaken together with an investigation of the market orientation-performance link and potential moderators of the relationship. Studying the role and effectiveness of marketing in these different scenarios provides invaluable insights into the relevance of marketing principles in a developing economy. Overall, this thematic approach facilitates a thorough exploration of the significance of marketing practice in industrialised and developing economies and, more importantly, tackles the research question posed at the outset. Generally, the results indicate that in the UK, sound marketing practices exert a positive impact on performance while in Ghana, foreign firms' marketing practices are found to exert a greater effect on performance than those of domestic firms. Moreover, in the UK, a significant link between market orientation and performance emerges over a shorter period compared with a similar analysis in Ghana. Managerial implications of the findings are subsequently highlighted and future research directions are identified and discussed.

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Appiah-Adu, K. and Singh, S. (1999) Marketing culture and performance in UK service firms. *Service Industries Journal* 19(1), (in press).

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CHAPTER 1

INTRODUCTION AND OVERVIEW

The Research Issues and Questions

The introduction to this thesis commences by establishing the roots of the **issues and questions** being addressed, that is, whether marketing practices contribute to organisational performance, and if competitive environmental variables influence the market orientation-performance relationship. A related issue which is examined is the impact of corporate culture on marketing practice. Since the writings of the marketing concept are fundamentally associated with advanced Western economic systems, an additional question which is addressed in exploring these issues is whether the principles of marketing are equally effective for firms in developing economies as they are to those in industrialised nations. More specifically, the **objective** is to provide an understanding of the link between marketing orientation and different performance dimensions of firms in the various industries investigated. Moreover, particular aspects of marketing practice which require attention for improving specific performance indicators are addressed.

This introduction further examines:

1. **basic tenets of the marketing-performance conceptual model**, its development, hypotheses and empirical testing, in the contexts of industrialised and developing economies and, in the process, investigates the effects of environmental variables on the market orientation-performance link.
2. **the development of marketing in industrialised nations**, both theoretical and empirical, and why several areas of the marketing discipline have attracted growing attention in the last few decades; this involves a review and analysis of the pertinent marketing literature and a linking of the current state of knowledge involving the application of marketing principles to the understanding of marketing culture, marketing effectiveness and market orientation in an industrialised economy as follows:

(a) **marketing culture.** Chapter 2 draws upon organisational behaviour and marketing theories (Parasuraman, 1986; Webster, 1990a) to examine the concept of marketing culture among large organisations, while Chapter 3 examines the importance placed on marketing culture by service firms.

(b) **marketing effectiveness.** Chapter 2 explores the nature of marketing effectiveness in large organisations, using theoretical concepts proposed by Kotler (1977), while Chapter 4 investigates the significance of marketing effectiveness in service firms.

(c) **market orientation and its ingredients.** Chapter 6 investigates issues relating to market orientation in small firms within an industrialised economy context and compares the findings with large firm market orientation-related studies in other developed nations in order to draw comparisons. Chapter 5 develops an exploratory construct for measuring market orientation in a high technology industry.

3. the development of marketing in developing economies, both conceptual and empirical, reasons for its slow development initially and why it is one of the areas on which much recent attention has been focused among scholars and practitioners of development, particularly in developing economies. This involves a review and analysis of the relevant literature, linking the current state of knowledge involving the application of marketing principles to the understanding of marketing strategies, marketing activities and market orientation. This encompasses:

(a) **a study of marketing strategies.** Within liberalised developing economies, Chapter 7 discusses the significance of marketing as a strategic business orientation and Chapter 9 examines the marketing strategies of multinational companies.

(b) **a discussion of marketing activities.** Chapter 10 examines core marketing activities using marketing mix and customer orientation principles (product, price, promotion, distribution and customer orientation activities) in foreign and domestic companies operating within a liberalised developing economy.

(c) an understanding of market orientation and analysis of its constituents. Chapter 9 investigates issues relating to market orientation while Chapter 11 develops a measure for market orientation in predominantly large manufacturing and service firms in a developing economy.

4. the impact of corporate culture on marketing practice. Chapter 2 examines the influence of marketing culture on marketing effectiveness in an industrialised nation while Chapter 8 assesses the effects of corporate culture on market orientation in a developing economy context.

5. marketing-performance in industrialised and developing economies, the consideration of the contribution to knowledge of Chapters 2 to 11, indicating how it links to and builds upon the developing literature (coherence and progression) and, thus, the precise contribution to marketing knowledge of each chapter, in particular:

(a) marketing's impact on business performance. Relevant success measures are employed according to their suitability in different studies. In the context of an industrialised nation Chapters 3 and 4 investigate the respective effects of marketing culture and effectiveness on different performance dimensions of service firms, while Chapters 5 and 6 explore the link between market orientation and performance from the perspectives of high technology and small firms respectively. Within a liberalised developing economy, Chapter 9 examines the influence of marketing strategies on performance of selected multinational companies quoted on the stock exchange, while Chapters 10 and 11 evaluate the impact of marketing mix activities and market orientation respectively on performance among predominantly large firms.

(b) environmental influences on performance. To assess the impact of market orientation on performance in various industries, this thesis controls for the possible effects of environmental factors such as relative size, relative cost, competitive intensity, market growth, market and technical turbulence. In addition to the above, specific factors included in individual studies are: relative product quality, time of market entry, competitor concentration

(high technology industry) in Chapter 5; relative product quality (small business sector) in Chapter 6; customer power and ease of market entry in Chapter 11 (developing economy). In the context of a liberalised developing economy, Chapter 7 discusses the impact of economic reform environments on marketing practice and the potential effects on performance.

(c) **moderators of the market orientation-performance association.** Developing propositions based on findings from established research precedent, the four potential moderators of the market orientation-performance link, namely, competitive intensity, market growth, market and technological turbulence are examined within an industrialised and developing economy context in Chapters 6 and 11 respectively.

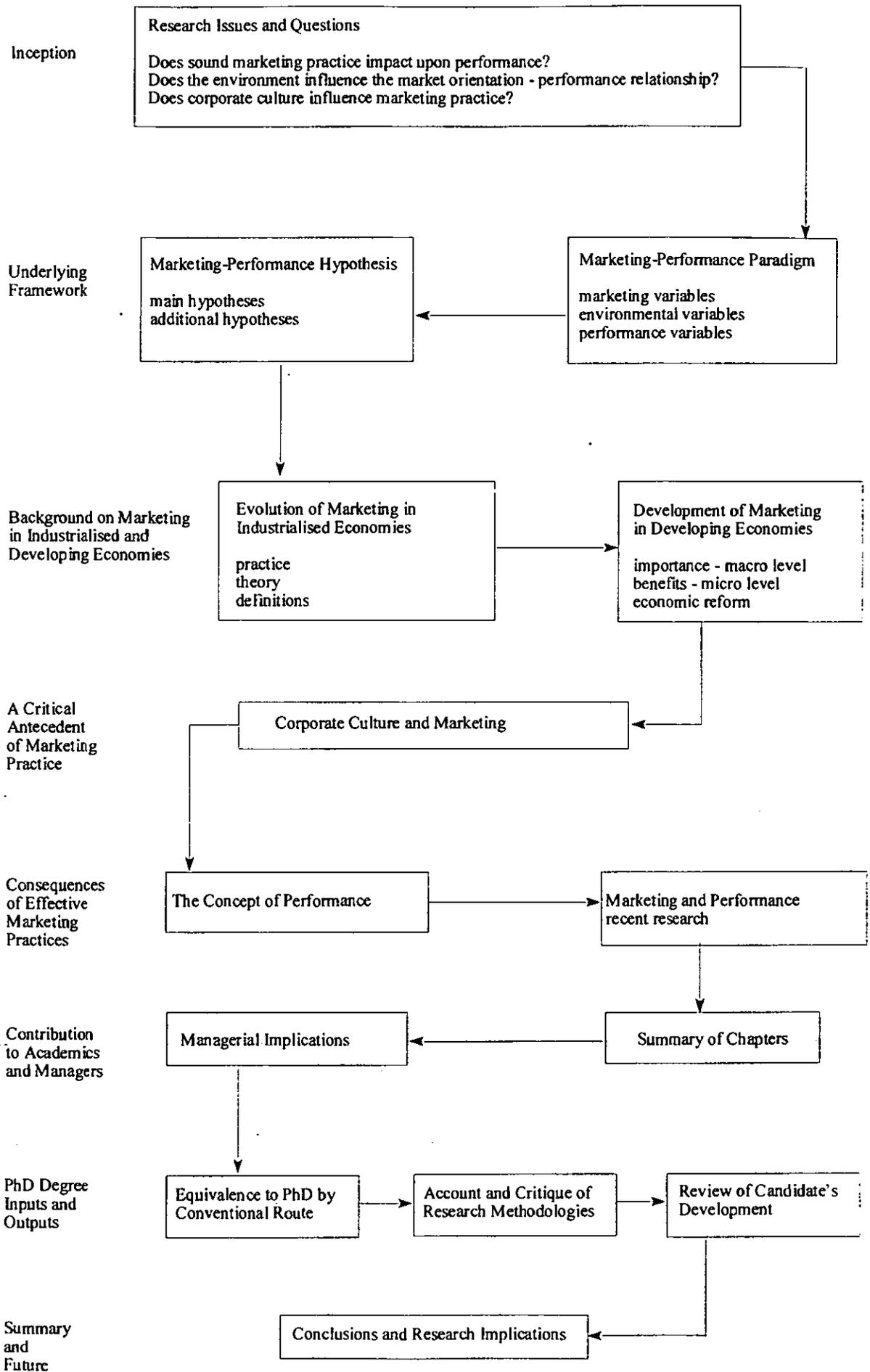
6. Implications of the findings for managers and conclusions, suggesting possible fertile future research avenues on the consequences of sound marketing practice for firms operating in (i) industrialised nations and (ii) developing economies.

Other considerations which are covered in this introductory chapter include a summary and indication of the significance of each publication, evidence of claims that the works selected are equivalent to a PhD by the conventional route, an account and critique of the research methodologies used and a critical review of the candidate's development as a researcher over the period. *A route map of chapter one is illustrated in Figure 1.*

The Marketing-Performance Paradigm

The predominant theme that runs through and links each chapter is the **marketing-performance** paradigm of marketing theory and practice which basically postulates that effective marketing practices exert a positive impact upon business performance (Levitt, 1960; Hooley and Lynch, 1985; Jaworski and Kohli, 1993; Van Egeren, 1998). An underlying premise is that the environment conditions the effectiveness of marketing principles and, thus, it is hypothesised that the market orientation-performance link may be influenced by environmental factors. Different conceptualisations of marketing practices are explored in greater detail in the articles submitted in this thesis but essentially are outlined, in conjunction with environmental variables and performance measures as follows:

Figure 1: Route Map for Chapter 1 - Introduction and Overview



Marketing culture

Within the framework of corporate culture, marketing culture is characterised by the latent and formally decreed policies (Parasuraman, 1986). From a marketing perspective, this represents a pattern of shared values and beliefs which enable employees to appreciate and *feel* the marketing function, hence, providing them with norms for behaviour in the organisation as well as the significance attached to the marketing function (Webster, 1990a). Marketing culture is conceptualised as a multidimensional construct which is determined by the importance given to service quality, innovativeness, interpersonal relationships, the selling activity, internal communications and organisation (Webster, 1993).

Marketing effectiveness

Marketing effectiveness is a measure of effective marketing management practices in an organisation. A firm's marketing effectiveness is reflected in the degree to which it exhibits five major attributes of a marketing orientation. These are customer philosophy, integrated marketing organisation, adequate marketing information, strategic orientation and operational efficiency (Kotler, 1977). Marketing effectiveness and performance are regarded as two different concepts. It is contended that performance measures such as sales, market share and profit margin are determined by marketing effectiveness (Hooley and Lynch, 1985) which, in turn, is contingent upon marketing culture (Webster, 1995).

Market orientation

Market orientation is operationalised by Kohli and Jaworski (1990) as the implementation of the marketing concept, that is, the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organisation-wide responsiveness to it. A complementary definition by Narver and Slater (1990) is based on the notion that market orientation comprises three behavioural components - customer and competitor orientations and inter-functional coordination; it is the organisational culture that most "efficiently" creates the necessary behaviours for the creation of superior value for buyers.

Marketing activities

In the context of developing economies, marketing activities represent decisions relating to five basic marketing functions, namely: product-related functions; pricing-related functions; promotion-related functions; distribution-related functions (McCarthy and Perreault, 1993); and, customer orientation (Kotler, 1997). In examining the significance of marketing activities, each of these five components, which is based on multi-item measures, is tested separately to determine their impact on performance among foreign and domestic firms in Ghana's economy.

Marketing strategies

Marketing activities are also described in a strategic context by combining elements of the marketing mix with related areas such as strategic planning, diversification, operational efficiency and organisational rationalisation, and their overall impact on competitive success among selected multinational companies is explored.

Marketing practices

Marketing practices refer to the adoption and utilisation of philosophies, strategies and activities associated with the marketing concept. Generally, they represent a broad range of practices, usually defined as constructs which are based on marketing principles. In this thesis, the focus is on marketing culture, effectiveness, strategies, activities and market orientation.

Environmental variables

Environmental variables influence marketing practices and performance. Corporate culture is considered to exert a significant influence on the extent and effectiveness of marketing practice (Deshpande, Farley and Webster, 1993; Webster, 1995). Environmental effects on performance include market turbulence, competitive intensity, market growth, technological turbulence, relative size, relative cost, product quality, customer power, ease of market entry and competitor concentration (Slater and Narver, 1994). Furthermore, market turbulence, competitive intensity, market growth and technological turbulence are postulated as moderators of the marketing-competitive success association (Kohli and Jaworski, 1990).

Performance

Performance of firms is assessed by adopting a multi-dimensional approach. This includes: financial measures relating to growth, profitability, effectiveness, efficiency; adaptability and innovation success; employee-based measures such as productivity; and, customer-focused measures, namely, customer satisfaction and retention (Walker and Ruekert, 1987; Baker and Hart, 1989; Johne, 1992; Deng and Dart, 1994; Thomas, 1998).

The marketing-performance paradigm reflects an important principle guiding conditions in the marketplace from one discipline's perspective, although it must be emphasised that this model is but one of several which could have been selected and is not without limitations. This paradigm does, nonetheless provide a theoretical framework that serves as a common thread linking together the subsequent chapters of the thesis. Once the methodological framework is understood, it becomes clear that the chapters are not merely descriptive but reflect a consistent theme. The subject explored throughout is the application of general marketing principles to the investigation of the marketing-performance link of firms in an industrialised nation and a developing economy. Hence, the study seeks to make an original contribution to existing knowledge: first, in the general marketing literature; second, in the service, small business and high technology (Bioindustry) sectors of industrialised economies; and, third, in the marketing strategy discipline of developing economies.

In order to obtain a better understanding of the work presented in this thesis, it is important to explore the marketing-performance model. Issues to be addressed include a consideration of the essence of the marketing-performance paradigm and the nature of the constructs, how performance can be defined and measured, and how competitive environmental factors can influence the market orientation-performance link. *A key question is to what extent a firm's performance is dependent on the adoption and implementation of effective marketing principles?*

A robust exploration of the marketing-performance framework will not be complete without conducting a series of tests based on hypotheses relating to the paradigm. In this thesis, hypothesis testing is based on a variety of recent themes in the marketing strategy literature. Within the context of an industrialised economy the hypotheses are based on

marketing culture, marketing effectiveness, market orientation, competitive environmental factors and performance (Jaworski and Kohli, 1993; Webster, 1993; Dunn, Norburn and Birley, 1994; Slater and Narver, 1994; Greenley, 1995; Harris, 1996; Appiah-Adu, 1997a; Harris, 1997; Appiah-Adu and Ranchhod, 1998; Harris, 1998). For a liberalised developing economy, the hypotheses are based on marketing activities and strategies, market orientation, the competitive environment and performance (Okoroafo and Kotabe, 1993; Okoroafo and Torkomoo, 1995; Appiah-Adu, 1997b; Appiah-Adu, 1998c).

The principal hypotheses derived from the marketing-performance framework which are investigated empirically are listed below:

1. there is link between corporate cultural orientation and the effectiveness of marketing practice (Anderson, 1982; Kotler, 1988; Webster, 1995; Appiah-Adu and Singh, 1997);
2. marketing culture is positively associated with customer satisfaction, retention and profitability (Narver and Slater, 1990; Webster, 1993; Appiah-Adu and Singh, 1999);
3. marketing effectiveness is positively associated with customer retention (Anderson, 1982; Hallowell, 1996; Appiah-Adu, 1999);
4. highly market oriented firms will perform better than their relatively less market oriented competitors, or put differently, there is a positive association between market orientation and performance (Ruekert, 1992; Jaworski and Kohli, 1993; Slater and Narver, 1994; John and Panos, 1996; Pitt, Caruana and Berthon, 1996; Appiah-Adu, 1997a; Avlonitis and Gounaris, 1997; Appiah-Adu and Ranchhod, 1998; Van Egeren and O'Connor, 1998);
5. there are internal and external environmental influences on performance such as firm relative size, relative cost, product quality, customer power, ease/time of market entry, market turbulence, competitive intensity, technological turbulence, market growth etc. which need to be controlled for in estimating the marketing-performance relationship (Jaworski and Kohli, 1993; Slater and Narver, 1994; Greenley, 1995; Appiah-Adu, 1997a; Appiah-Adu and Ranchhod, 1998);

6. external competitive variables such as market turbulence, market growth, competitive intensity and technological turbulence may moderate the strength or direction of the market orientation-performance association (Kohli and Jaworski, 1990; Diamantopoulos and Hart, 1993; Slater and Narver, 1994; Greenley, 1995; Appiah-Adu, 1997a; Appiah-Adu, 1998c);
7. in developing economies, the economic reforms taking place will increase the need for and utilisation of SAP-tailored marketing strategies among firms (Dadzie, Akaah and Riordan, 1988; Okoroafo, 1996; Appiah-Adu, 1997b; Appiah-Adu, 1998c);
8. in developing economies, there are likely to be differences in the marketing practices of domestic firms on the one hand and foreign firms on the other. Foreign firms are more likely to be characterised by superior marketing practices compared to domestic firms (Chong, 1973; Akaah and Riordan, 1988). A general positive link is expected between sound marketing practices and performance (Kinsey, 1988; Okoroafo and Kotabe, 1993; Appiah-Adu, 1998a).

All the above hypotheses are discussed and tested directly or indirectly in the chapters of this thesis as follows:

hypothesis 1: Chapters 2 and 8 (marketing culture and marketing effectiveness in firms operating in an industrialised economy; organisational culture and market orientation of firms in a liberalised developing economy);

hypothesis 2: Chapter 3 (marketing culture and performance in the service industry of an industrialised nation);

hypothesis 3: Chapter 4 (marketing effectiveness and customer retention performance in the service industry of an industrialised nation);

hypothesis 4: Chapters 5 and 6 (market orientation-performance in the biotechnology and small business sectors of an industrialised nation) and Chapter 11 (market orientation-performance of organisations in a liberalised developing economy);

hypothesis 5: Chapters 5 and 6 (market orientation-environment-performance in the biotechnology and small business sectors of an industrialised nation) and Chapter 11 (market orientation-environment-performance in a liberalised developing economy):

hypothesis 6: Chapter 6 (market orientation-environment-performance in the small business sector of an industrialised nation) and Chapter 11 (market orientation-environment-performance in large organisations of a liberalised developing economy);

hypothesis 7: Chapter 7 (marketing in a liberalised economy: emerging trends and implications for strategy) and Chapter 9 (case study of multinational firms in a liberalised developing economy);

hypothesis 8: Chapter 10 (marketing activities and business performance among foreign and domestic firms in a liberalised developing economy).

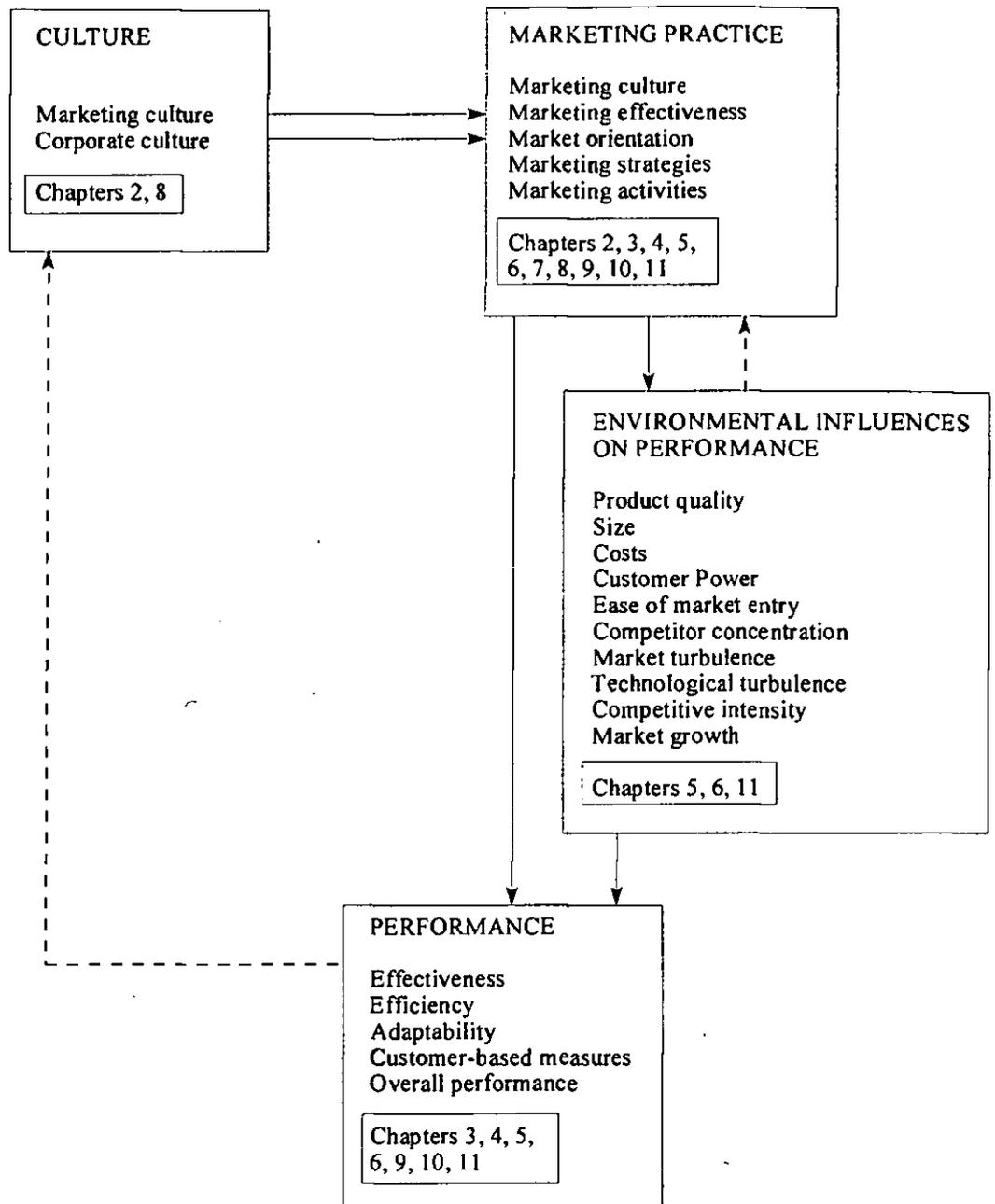
Additional hypotheses which arise, and are tested in the works underpinning this thesis are:

1. firm size relative to the largest competitor is positively associated with business performance (Buzzell and Gale, 1987; Greenley, 1995);
2. average total operating costs of a business relative to its largest direct competitor is negatively related to performance (Porter, 1980; Scherer, 1980);
3. higher competitor concentration in an industry results in higher performance for the major competitors (Porter, 1985, Houston, 1986);
4. easy market entry is negatively related to performance of existing competitors (Porter, 1980; Scherer, 1980);
5. early market entry is positively related with performance (Dierickx and Cool, 1990);
6. customer power is negatively associated with business performance (Porter, 1980; Narver and Slater, 1990);
7. market growth has a positive relationship with performance (Kohli and Jaworski, 1990; Slater and Narver, 1994);
8. market turbulence is negatively associated with performance (Miller, 1987);
9. technological turbulence is negatively related to business performance (Bennett and Cooper, 1981; Kohli and Jaworski, 1990);
10. competitive intensity is negatively related to performance (Hall, 1980).

Although these propositions do not constitute an exhaustive list, they provide a picture of the significance of these related marketing issues. These propositions may shed light on some of the pressing business inquiries of today, for example, whether sound marketing practice is positively associated with performance, what influence environmental influences have on the market orientation-performance relationship, the relevance of marketing in developing economies, and, last but not least, what the future holds for marketing management and research. These are critical concerns, which can be perplexing, particularly if they are not examined in the specific and broad areas that the above questions address. Notwithstanding the efforts made by the articles in this thesis to investigate the characteristics and significance of various marketing constructs as well as their effects upon organisational performance, there are prospects for research advances by practitioners and academics in several related areas such as market orientation and organisational learning or market orientation in international markets.

The fundamental theoretical framework and structure of this thesis, based on the marketing-performance paradigm of marketing theory and practice (Levitt, 1960; Kotler, 1984; Hooley and Lynch, 1985; Narver and Slater, 1990; Jaworski and Kohli, 1993), is exhibited in Figures 2a, 2b and 2c. This illustration is vital in explaining the content, structure and importance of the work presented in this thesis. The focus adopted throughout this project derives from the theory and practice of marketing with elements of business strategy, corporate culture and economics, and this approach is applied to small and large firms in the manufacturing, service and high technology sectors. The original contribution to existing knowledge stems from the disciplined application of marketing principles over a range of businesses operating in different industries in the contexts of an industrialised nation and a developing economy. Hence, though the intellectual basis is derived from the marketing-performance framework, the addition to existing literature emanates from the systematic application of marketing principles to describe business practices and predict performance of a selection of firms in a range of industrial sectors.

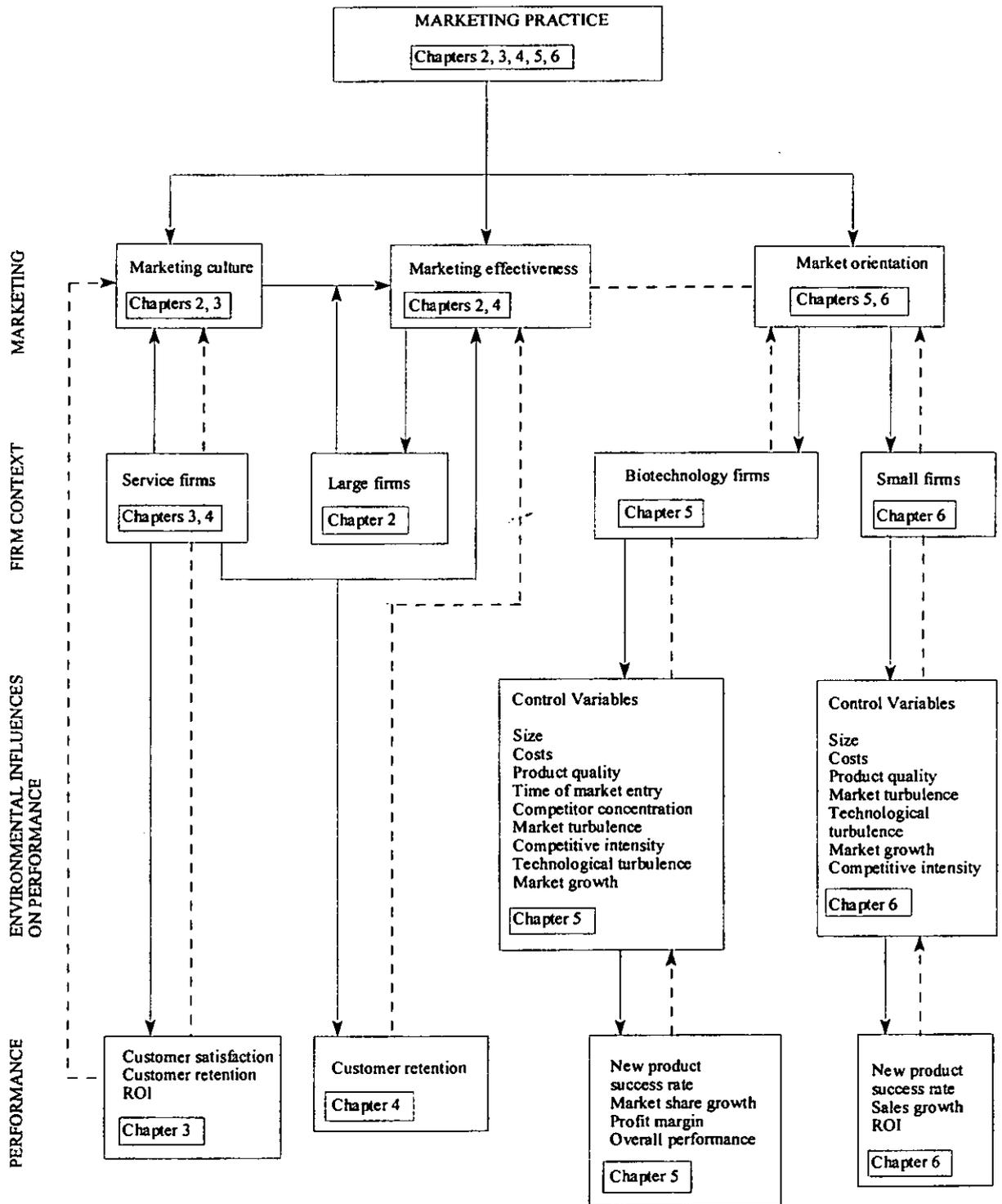
Figure 2a: The Marketing-Performance Paradigm



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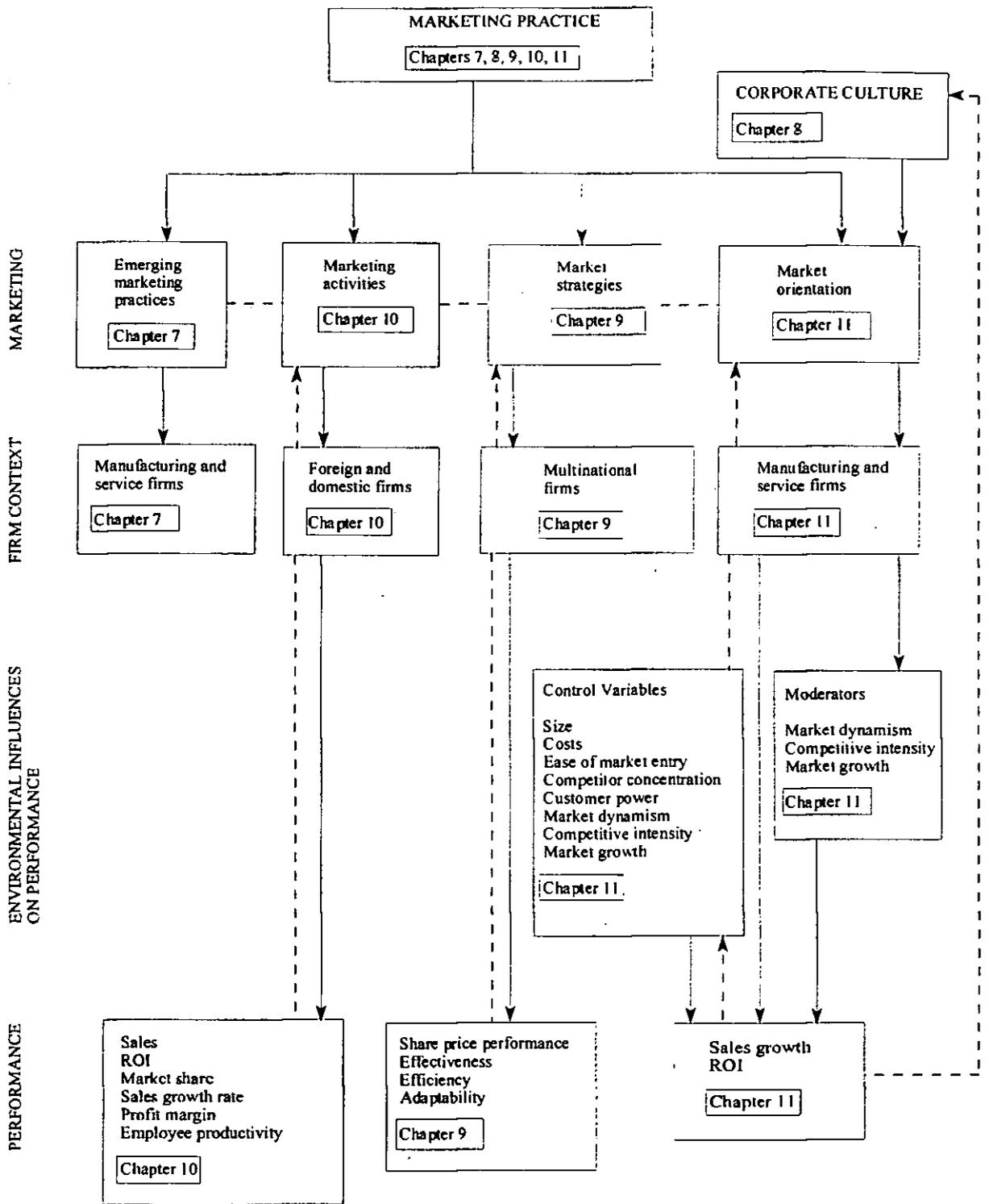
Figure 2b: The Marketing-Performance Framework: Industrialised Economy (UK)



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Figure 2c: Marketing-Performance Framework: Developing Economy (Ghana)



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The marketing-performance paradigm is vital in researching a variety of firms and industries since it enables one to:

1. investigate marketing issues in the contexts of organisations and industries;
2. determine which types of firms within different markets or industries are achieving relative superior performance;
3. ascertain the extent to which effective marketing strategies and activities contribute to improved performance;
4. identify the influence of other competitive environmental variables on any relationships found between marketing practice and performance (specifically in studies which control for environmental influences on the market orientation-performance link);
5. suggest possible areas of improvement in marketing practice for firms seeking to enhance performance in a variety of areas.

This approach conforms to the basic principles of the marketing discipline and is consistent with propositions made by marketing scholars regarding the importance of research, strategy and successful implementation of theoretical precepts in real life situations, be it in developing economies or industrialised nations (McDonald, 1982; Akaah and Riordan, 1988; Kohli and Jaworski, 1990; McDonald and Wilson, 1990; Denison and McDonald, 1995; Harris, 1996; Johne, 1996; Johne and Panos, 1996; Appiah-Adu, 1997a; Appiah-Adu, 1998c; Harris, 1998; Narver and Slater, 1998). Although the marketing-performance framework has been employed widely in studies based on consumer goods, manufacturing industries and large businesses, with mixed findings, rigorous applications to services, small businesses, high technology operations and developing economies are on the increase due to the growing importance of these markets in today's global economy (Webster, 1993; Littler and Leverick, 1994; Pelham and Wilson, 1996; Appiah-Adu, 1997a; Appiah-Adu, 1998c; Appiah-Adu and Ranchhod, 1998; Van Egeren and O'Connor, 1998). This marketing-performance paradigm serves as both a grounding and stimulus for empirical research and the published works in this

thesis contribute in extending our knowledge of marketing strategy theory and practice to these recent domains and can be viewed from the perspective of the development of that knowledge. The standpoint adopted is that if one goes beyond the **compositional features** of different economies, industrial sectors and firms, there are **elements which are common** to most markets due to fundamental influences arising from the existence of customers and competitive forces, which make sound marketing practice imperative if a business is to perform well in the marketplace. Certainly, different markets will have their peculiarities and common factors will exhibit varying degrees of influence.

The marketing-performance framework is not without limitations and, indeed, to ascribe superior performance to marketing variables alone is questionable, because the determinants of competitive success are likely to be multiple and overlapping and may include environmental, organisational (e.g., competence), managerial (e.g., knowledge) and strategic influences (Baker, Black and Hart, 1994). However, the purpose of this thesis is to provide a general overview of how important a marketing orientation is in the contexts of an industrialised nation and a developing economy, given the assertion by influential advocates such as Drucker (1954) and Levitt (1983) that marketing encompasses the entire business seen from the perspective of its final result, that is from the customer's standpoint. It is also argued that the significance of marketing is just as critical to industrialised nations as it is to developing economies in a world that is becoming increasingly characterised by globalisation (Drucker, 1954; Maholtra, 1986; Keegan, 1995).

Evolution of Marketing Theory in Industrialised Economies

Two eras (production and selling) in Western economies during the 20th Century are generally identified as antecedents to the birth of the marketing concept in the late 1950s. This concept basically posits that a business should be orientated towards satisfying consumer needs and wants. However, prior to its articulation, firms were characterised by a production orientation from the period of the Industrial Revolution up to the depression of the 1930s, during which demand most often exceeded supply (Sheldon and Arens, 1932; Landes, 1969; Cochran, 1977; Hounshell, 1984). After the 2nd World War when supply was generally greater than or equal to demand, organisations adopted a hard-sell approach in a sales orientation (Keith, 1960;

Oliver, 1980; Kinsey, 1988). Nonetheless, as some consumer needs reached saturation point, and as social and technical considerations influenced customer preferences, this policy of aggressive selling gave way to a new approach. In order to survive businesses started to give more thought to consumers and their wants prior to committing resources to production. Consequently, the marketing concept was born and consumers were recognised as the focus of all marketing efforts (Stanton, 1984; Bagozzi, 1986; Kotler, 1997).

As an academic discipline, contemporary marketing theory emanated from the field of economics in the West at the start of the 20th Century (Webster, 1992). Over time, three distinct schools emerged that emphasised the: *commodities* themselves; marketing *institutions* through which goods were conveyed to the market (Breyer, 1934; Duddy and Revzan, 1953); and the *functions* performed by these establishments (Weld, 1917; McGarry, 1950), though the functional school was the most analytical and influential in the development of a theoretical framework for the marketing discipline (Bartels, 1962; Rathmell, 1965).

Initially, marketing was viewed as a series of social and economic processes, however, over time there was a significant change of focus, with marketing functions being perceived as business activities, as reflected in the American Marketing Association's (1948) definition of marketing:

The performance of business activities directed toward, and incident to, the flow of goods and services from producer to consumer or user.

This managerial perspective which emerged in the 1950s and 1960s, defined marketing as a decision-making or problem-solving process and drew heavily on analytical frameworks from economics, psychology, sociology and statistics (Howard, 1957; McCarthy, 1960; Kotler, 1967). The inclusion of behavioural and quantitative sciences in the theoretical and conceptual frameworks of the managerial viewpoint lent authenticity to marketing as a distinct academic subject, and marketing management gained acceptance as an organisational function. The managerial viewpoint gradually assumed prominence in the marketing literature, bolstered by behavioural and management sciences.

On the formal definition of marketing there is, in fact, a wide array of views and these have been reviewed by others at various periods in the last three decades (e.g., Baker, Braam and Kemp, 1967; Webster, 1994) without any clear consensus being reached. No exhaustive review is attempted here, instead, it will suffice for current purposes to compare two of the notable views in the European and US literature respectively.

(a) Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably (Chartered Institute of Marketing, 1984).

(b) A social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others (Kotler, 1997, p. 9).

These reflect the contrast in conceptualising marketing as a management function in (a) and marketing as a process of social and economic exchange in (b). In this thesis the focus is on the former classification.

Recent Research on Marketing Orientation in Industrialised Economies

In 1980, *Business Week* reported that organisational culture influences corporate orientation towards marketing. This assertion was subsequently reiterated in the popular and scholarly literature (*The Wall Street Journal*, 1985; Lorsch, 1986). Consequent academic studies indicated a strong impact of both organisational culture and customer focus on marketing effectiveness (Dunn, Norburn and Birley, 1985; Norburn, Birley and Dunn, 1988). Others suggested that marketing culture (Kotler, 1988) and effectiveness (Hooley, West and Lynch, 1984) are significant determinants of business performance. Meanwhile, the conventional marketing notion that corporate orientation was undergoing a transformation from production to sales and ultimately marketing was contested, with an alternative framework of the historical development of marketing being put forward (Fullerton, 1988). In a further discussion of the marketing discipline from an information perspective, Houston (1986) observed that marketing has been prescribed as the ideal management philosophy when it is not necessarily so in all cases and that there are many instances of poor marketing practice which have been adopted in the name of the marketing concept. In response to earlier attacks on the inherent pragmatic value of the marketing philosophy (Kaldor, 1971; Hayes and

Abernathy, 1980), several writers challenged these criticisms and defended the validity of marketing principles (Webster, 1981; Gaski, 1984; McGee and Spiro, 1988).

Research in the 1980s and 1990s also witnessed an accentuation of marketing paradigms such as marketing planning (Leppard and McDonald, 1987; McDonald, 1992; McDonald, 1996), relationship marketing (Gummesson, 1987; Gronroos, 1994; Morgan and Hunt, 1994) and global marketing (Ohmae, 1989; Keegan, 1995). Others emphasised the need to integrate marketing with strategic management (Anderson, 1982; Day and Wensley, 1983; Day, 1992), quality management (Parasuraman, Zeithaml and Berry, 1985; Morgan and Piercy, 1992) and organisational culture (Deshpande and Webster, 1989; Norburn, Birley, Dunn and Payne, 1990). However, three areas which have more recently received growing research attention in an attempt to integrate marketing into wider organisational efforts are the concepts of **marketing culture, marketing effectiveness and market orientation**.

During the last few years, academic researchers have investigated the importance of marketing culture to businesses (Webster, 1993; 1995; Appiah-Adu, Fyall and Singh, 2000). Other scholars have explored the relationships between marketing effectiveness and various organisational variables (Dunn, Norburn and Birley, 1994; Norburn, Dunn, Birley and Boxx, 1995). Significant contributions have also been made to the marketing literature by addressing the market orientation construct as well as its antecedents and consequences (Narver and Slater, 1990; Ruekert, 1992; Jaworski and Kohli, 1993; Diamantopoulos and Hart, 1993; Greenley, 1995; Harris, 1997; Pitt, Caruana and Berthon, 1996; Avlonitis and Gounaris, 1997; Harris, 1998). In addition, issues relating to the basic components of the marketing mix - product, pricing, promotion and distribution continue to attract interest either as individual subjects or as part of integrated frameworks.

In the context of an industrialised economy, this thesis gives consideration to the significance of marketing culture (Appiah-Adu and Singh, 1997; Appiah-Adu and Singh, 1999), marketing effectiveness (Appiah-Adu and Singh, 1997; Appiah-Adu, 1999) and market orientation (Appiah-Adu, 1997a; Appiah-Adu and Ranchhod, 1998) by investigating their relationships with a variety of organisational outcomes, particularly business performance in order to explore the character and influence of marketing practice from different perspectives.

The Concept of Developing Economies

The label *developing economy* is used to characterise countries outside the Western bloc of so-called technically advanced nations (Western Europe, North America, Japan, Australia and New Zealand). In this thesis, the focus is on Ghana, a country viewed by World Bank and IMF experts as a shining beacon of success in Africa (e.g., IMF, 1993). Developing economies are characterised by low per capita income, wealth concentration in the hands of a few, high population growth rates, high illiteracy levels, high percentage of population employed in agriculture and a high proportion of exports concentrated in staple crops and raw materials. However, in reality, these nations range from primitive, stagnant economies to rapidly developing dynamic economies. Moreover, these countries differ in culture, politics and level of economic development and, hence, efforts have been made to introduce some sub-classifications. For instance, the World Bank's classification using gross national product (GNP) per capita yields low, middle, upper middle and high income nations. Indeed, the range of developing economies is enormous and likely to change further in the future, hence, any rigid categorisation is unlikely to remain legitimate for a lengthy period.

If some developing economies are regarded as more developed than others, then it is important to examine the meaning of economic development. Unfortunately, definitions have varied from 'economic growth' to 'modernisation' to 'distributive justice' to a 'socio-economic change' (World Bank, 1986; Kinsey, 1988). Following World War II, economic growth, based on an increase in GNP was used as the measure of development. A limitation of this approach was that a rise in GNP could be eclipsed by a population growth, resulting in a lower average standard of living. In the 1960s 'modernisation' emerged as a major yardstick for assessing development, with an emphasis on social, psychological, political and educational changes. Following a realisation that the improvements associated with growth were not reaching the poverty stricken areas of the society, 'distributive justice' involving an emphasis on regional planning and more public goods/services, became the criterion for measuring development. Economic development now embraces a total socio-economic transformation, with improvements in industrial and agricultural sectors, material prosperity, literacy, health and gainful employment for the working age segment in general, since this is the real measure of enhancement of overall living standards.

The Importance of Marketing in Developing Economies

Marketing generally involves a process of exchange between two parties which is concluded to their mutual benefit and satisfaction (Baker, 1983). Although its origins date back to the times of trade by barter, the marketing concept which was formally recognised in the West during the 1950s holds that a business exists to satisfy consumer needs and wants and, thus, social and economic transformation are central to the marketing concept's development. Kotler's (1984) societal marketing concept which was proposed in the 1980s urges an organisation to place emphasis on the welfare of society in general in addition to satisfying consumer needs and wants. Based on these concepts, marketing may be regarded as a strategic component of any society, because it directly allocates resources and exerts a fundamental influence on other facets of economic and social life. Hence, it is logical to suggest that marketing is relevant to economic development and is an intrinsic part of it and indeed an active agent.

Nonetheless, some authors have debated whether the organising framework of the marketing discipline, with its origins in the industrial culture of the US and Western Europe, is applicable in developing economies (Bartels, 1983; Ross and McTavish, 1984, 1985). One standpoint is that marketing lacks applicability in developing economies because its concepts and techniques have evolved and been nurtured in buyers' market conditions, whereas most developing economies reflect sellers' markets (Dholakia and Dholakia, 1980; Bartels, 1983). The other perspective is that marketing principles and techniques are applicable in developing economies. However, the lack of availability of trained marketing personnel in these countries is viewed as impeding its ready applicability (Drucker, 1958; Mittendorf, 1982). Although the sophistication typical of marketing practices in the Western world may not be required, the fundamental objectives and functions of marketing are relevant. The latter perspective is endorsed in this thesis. In fact, marketing exists in some shape or form in any society where exchange takes place. The process is the same but there may be qualitative and quantitative differences such as fewer goods moving through the system, different types of goods, and usually a limited variety.

In relation to economic development, marketing can act as a stimulus. Used actively, marketing can spearhead and accelerate economic development (Baker, 1985). Marketing

research facilitates information gathering and better resource utilisation. Efficient physical distribution improves the productivity of the overall economic system. Better storage and transport generally leads to economies in distribution, growing markets and expansion in production. In addition to promoting entrepreneurial drive and providing employment, marketing stimulates wants, increases consumer awareness which, in turn, give rise to a higher level of production and a broader spectrum of available goods. Yet, conventional economic models utilised in preparing development plans tend to neglect the marketing component, regarding it merely as an aspect of the production mechanism. For example, Rostow's (1962) phases of economic development are founded on a dynamic theory of production and though Nurske's (1971) theory of balanced growth illustrates the difficulties presented on both the demand and supply side, the useful function marketing has to perform is disregarded. The answer to the vicious cycle of poverty is considered to be the injection of capital on the supply side, which boosts productivity and generates disposable income. Nonetheless, if production were viewed as a component of the marketing process, potential demand would first be ascertained. Next, marketing would stipulate means to transform this into effective demand, since it aids producers to develop products and enhance distribution processes, and guarantees that goods reach markets without perishing in transit. Thus, marketing is key to linking urban and rural markets, creating national markets crucial for economic development (Kinsey, 1988). Evidently, marketing can stimulate consumers to make choices in order to obtain the greatest value for their limited purchasing power. Thus, marketing facilitates the optimum exploitation of the assets and productive capacity of an economy and this is likely to lead to increased levels of economic activity.

This debate has significant implications for marketing management in developing economies and the global character of the discipline. For example, if marketing principles and practices are found to lack applicability in these countries, it would not only exacerbate the difficulty multinational corporations encounter in designing global marketing strategies, but would indeed necessitate a re-examination of the discipline's organising framework to enhance its global importance (Bartels, 1983). Against this background, several empirical efforts have been made to examine the significance of marketing in developing (African) economies during the last decade. Akaah, Riordan and Dadzie (1986) specifically investigated the perceived usefulness of marketing concepts and the extent to which marketing activities were performed.

They found marketing principles to be useful and also reported a high level of incidence and regularity of marketing management activities. A follow up empirical effort focused on the applicability of marketing-mix activities (the 4 Ps) in the same context and concluded that "... if incidence of performance of marketing-mix activities is any indicator of mix activities' applicability (as assumed here), then the study results indicate that they are applicable" (Akaah and Riordan, 1988, p.51). Other efforts have arrived at similar conclusions (Okoroafo and Torkornoo, 1995; Blankson and Appiah-Adu, 1996).

Benefits of Marketing at the Micro Level

Used effectively, marketing can provide firms operating in developing economies with many advantages. One principal gain is that subjective benefits may be added to a product so that the consumer perceives it as superior to the competition's and is thus willing to pay more for it. Therefore, profit margins may be enhanced. In their marketing efforts businesses need to establish where they are, where they want to be and how they are going to get there. The diagnosis stage of researching the market, monitoring and interpreting trends and customer needs, evaluating the organisation's resources, strengths and weaknesses and identifying the constraints of the marketing environment is important. So is the choice of target market segments since quite often, the majority of a firm's sales is accounted for by a minority of its customers. If this minority can be identified and served effectively, rather than attempting to serve all segments adequately, optimum earnings will be realised. When viable target markets with sound growth and profit prospects have been chosen, strategy may be developed.

In developing economies, it is perfectly possible to utilise different product variables such as quality, style, features, brand names, guarantees and so forth, just as promotion can be used to establish an organisation's image. The price/quality assortment, convenience, service and other components of the marketing mix could all be utilised as a medium to project the desired image and promotion can augment this, notwithstanding the media limitations and other constraints. Where distribution problems are properly identified at the diagnosis stage, possible difficulties could be taken into account in developing the optimum distribution strategy. Similarly, there is potential for using price as a strategic tool, particularly where offerings are associated with quality and marketing intangibles such as prestige or brand image. These principles do not only apply to large organisations but to small business

enterprises as well. The latter group usually possess two main advantages - their closeness to the customer and flexibility, but a common mistake lies in attempting to provide too broad a spectrum of offerings in large markets where their size leaves them handicapped. However, within these parameters their offerings may be differentiated, with a well balanced marketing mix creating a higher perceived value relative to the competition's. Hence, marketing can be highly beneficial to businesses operating in developing economies. Indeed, by applying the appropriate marketing tools a firm can develop a competitive edge over its less market oriented competitors. Although the latter group may survive in the short-term, they are likely to face serious difficulties in the long-term. And in the meantime, the market oriented business should be operating from a position of strength.

Economic Reform in Liberalised African Economies

For several years, businesses in many developing economies operated under conditions typified by high political instability, inadequate infrastructure, high trade barriers and low growth rates, and these unfavourable environments were cited as the major reason for limited foreign investments and foreign firms' poor performance (Barlett, 1990; Collins, 1990). Indeed, during the 1980s, economic analysts enjoined governments to subscribe to free market policies (Killick *et al*, 1984; Lever and Huhme, 1986), in the hope that an attractive marketplace would result in superior business performance and higher entry commitments. Conditions characterised by poor economic growth, declining investment flow and increasing debts, drove several developing economies to subscribe to the IMF's structural adjustment programme (SAP). Countries such as Ghana, Gambia, Kenya, Nigeria, Sierra Leone, Tanzania, Uganda, Zaire and Zambia signed on to the SAP in return for instituting specific economic measures designed to liberalise their economies. According to the IMF (1989), approximately 50 per cent of Sub-Sahara African Nations (SSANs) had adopted economic reform policies as at March 1989. Generally, the new measures include privatising government controlled enterprises, introducing tax reforms, price decontrols and budgetary control policies, relaxing trade, investment and foreign exchange constraints, promoting fiscal accountability and enhancing agricultural practices. Hence, though many multinational institutions and Western governments had for long pressurised African nations to adopt free market policies, it was not until the 1980s that such advice was heeded. Earlier efforts to promote reform in areas involving reduced government expenditure and privatisation of

government controlled enterprises had yielded fruit. Nevertheless, the liberalisation policies of the 1980s were far reaching.

So far there is mixed evidence on the consequences of the reforms. There are visible signs of improving physical, commercial and financial infrastructure. At the macro level, there is also evidence that countries which embarked on SAPs have performed relatively well. For instance, an analysis of private investment flows as a percentage of gross domestic product (GDP) in 30 developing economies between 1970 and 1988 revealed improvements in flows since 1985 (Madarassy, 1990). Moreover, a study of export earnings, financial flows, terms of trade and capacity to import in SSANs indicated an increase in the period ensuing SAP relative to the previous 20 years (Humphreys and Yaegar, 1990). Others have reported improvements in terms of trade and reserves ratios (Nsuoli, 1993). In general, significantly devalued local currencies, extensive market opportunities through export and investments, decreased tax rates and increased freedom to engage in marketing practices (e.g., set prices, use different promotional tools, etc.) have been realised (Dadzie, Akaah and Riordan, 1988). The reforms have been found to have a positive impact on business performance (Okoroafo and Torkomoo, 1995). Although critics have highlighted some of the initial consequences of reform such as insecurity, environmental turbulence and uncertainty, advocates assert that in the long run, a free market economy is the best way forward. Notwithstanding the two opposing views, what is universally accepted is that the marketplace has been transformed and this has implications for marketing decisions.

Recent Areas of Research in Marketing in Liberalised African Economies

In response to changing business practices in a number of countries which have embarked on economic reform programmes, a distinctive trend has emerged in marketing-related research on liberalised African economies over the last decade. The late 1980s was characterised by a focus on the relevance, incidence and performance of **marketing (mix) activities** in evolving African markets (e.g., Akaah, Dadzie and Riordan, 1988; Akaah and Riordan, 1988; Dadzie, Akaah and Riordan, 1988). The early 1990s saw a flurry of empirical studies on the impact of economic reform policies on the business environments and the **marketing strategies** which the resulting transformation in the marketplace had given rise to (e.g., Steel and Webster, 1992; Okoroafo and Kotabe, 1993; Okoroafo and Torkomoo, 1995; Muuka, 1997).

Some of these works were based on single countries (e.g., Okoroafo and Kotabe - Nigeria; Muuka - Zambia) while others used samples from several countries which had embarked on structural adjustment policies in an effort to liberalise their economies (e.g., Okoroafo and Torkornoo - Ghana, Kenya, Nigeria, Uganda, Zambia). The works reported in this thesis do not only explore further dimensions of these subjects but also incorporate new areas. Specifically, consideration is given to the significance of **marketing strategies** (Appiah-Adu, 1997b), however, this study differs from previous efforts in that it is based on a case approach and, secondly, objective (not subjective) indicators are used to measure performance. In addition, **marketing mix activities** (Appiah-Adu, 1998b) are investigated but a clear attempt is made to conduct a comparative analysis of the practices of foreign and domestic firms. Further, the concept of **market orientation** (Appiah-Adu, 1998c; Appiah-Adu and Blankson, 1998) which has not been explored in any of the previous studies, is examined in the context of a liberalised developing economy (Ghana).

The Nature and Measurement of Performance

The need for performance measurement is a recurrent theme in many fields of management research, including marketing management, and it is of interest to both scholars and practitioners (Hofer, 1983). The significance of performance measurement in management research can be discussed from theoretical, empirical and managerial perspectives. Theoretically, the subject of performance is central to management strategies, and most strategy concepts implicitly or explicitly underline performance ramifications, given that performance is the time test of any strategy. Empirically, many management strategy studies use performance measurement to investigate content and process issues (Venkatraman and Ramanujam, 1986). These indicators are of value to executives since they provide, among other things, the bases for managerial action such as planning and control as well as directions for enhancing organisational performance (Bhargava, Dubelaar and Ramaswami, 1994).

A number of frameworks have been used to conceptualise performance. These include the goal approach (Etzioni, 1964), systems resource approach (Yutchman and Seashore, 1967) and multiple constituency approach (Thompson, 1967). However, an examination of the marketing strategy literature highlights Walker and Ruekert's (1987) performance paradigm

as one of the most influential frameworks endorsed by marketing academics. Based on an exhaustive review of the literature, they conclude that performance can be measured and judged on a number of dimensions with varying relevance and importance: across stakeholder groups (e.g., investors vs. employees vs. customers); and, in relation to whether one takes a long-term or short-term view of the firm's performance. Walker and Ruekert identified three dimensions of performance which are of major significance to top corporate and business unit managers. *Effectiveness* reflects the success of a firm's products/services and programmes in relation to those of its competitors in the marketplace. Common measures of effectiveness include sales growth relative to that of competitors or changes in market share. *Efficiency* is the outcome of a firm's programmes in relation to the resources employed in executing them. Efficiency is typically measured by profitability as a percentage of sales and return on investment. *Adaptability* represents the firm's success in responding over time to varying situations and opportunities in the marketplace. Although there are various ways of measuring adaptability, the most common indicators are the new product success rate (Johns, 1995; 1996) in comparison with those of competitors or the percentage of sales attributable to products introduced within a given recent period (often operationally defined as the past five years).

Despite the usefulness of Walker and Ruekert's framework, they readily admit that there is little agreement as to which measure is best. Thus, any comparison of business performance with only these three dimensions can involve substantial trade-offs; good performance on one dimension often means sacrificing performance on another (Donaldson 1984). Another complication arises from the level of analysis used (e.g., national, industry, company and product) making the comparison of results from different studies difficult (Buckley, Pass and Prescott, 1988; Baker and Hart, 1989).

Other performance dimensions which have been employed in management research reflect the potential of a firm to generate slack and this includes indicators such as productivity defined as sales revenue per employee (Chakravarthy, 1986; Deng and Dart, 1994), the ability to raise long-term capital resources measured by the debt to equity ratio (Bourgeois, 1981), return on capital employed (Baker, Black and Hart, 1988), inventory turnover (Frazier and Howell, 1983) and market standing (Hooley and Lynch, 1985; Saunders and Wong, 1985; Thomas, 1998). In the services management and marketing literature, customer-focused

performance measures such as meeting customer expectations, customer satisfaction and retention have also attracted much interest in recent years (Heskett, Jones, Loveman, Sasser and Schlesinger, 1994; Hallowell, 1996; Reichheld, 1996). In this thesis, a variety of indicators are utilised according to their relevance and applicability in each study. For instance, in the UK service sector, customer-based performance measures such as satisfaction and retention are emphasised while in the emerging technology study, new product success rate and growth in market share are utilised along with profitability. The studies on Ghana employ conventional measures such as profitability and sales growth, but the comparison of foreign and domestic firms includes employee productivity because of the emphasis on increased efficiency in the new environment.

Objective and Subjective Performance

Performance is broadly defined on the basis of two conceptualisations in the management literature. On the one hand is the subjective approach which primarily focuses on performance of a business compared to that of its major competitors (Verhage and Waarts, 1988; Golden, 1992) or relative to a firm's expectations (Pelham and Wilson, 1996). On the other hand is the objective concept which is concerned with absolute performance indicators (Chakravarthy, 1986; Cronin and Page, 1988). Empirical research efforts that have utilised both methods identified a strong link between objective responses and subjective measures (Venkatraman and Ramanujam, 1986; Robinson and Pearce, 1988).

Irrespective of the framework selected to conceptualise organisational performance, it is evident that it is a complicated and multi-dimensional phenomenon. Operationalising such a sophisticated concept can be fraught with many problems. Even when adopting the objective approach and employing economic measures, researchers often encounter problems in obtaining accurate figures. Moreover, despite its appeal, archival data exhibit greater method variance than informant data. In this thesis, the subjective method was adopted for the majority of studies, firstly, due to the difficulty in obtaining objective indicators from documentary sources and, secondly, because in most cases respondents were unwilling to provide such data which was considered to be confidential. However, one study on Ghana (Chapter 9) was based on objective performance measures.

Influence of Corporate Culture on the Effectiveness of a Marketing Orientation

Although the marketing-performance framework forms the bedrock for the publications presented in this thesis, the impact of corporate culture on marketing practice in an industrialised and developing economy is also considered. Corporate culture has been discussed extensively in the management literature and many definitions have been proposed (Schwartz and Davis, 1981; Jelinek, Smircich and Hirsch, 1983). Following an extensive review of the literature, Deshpande and Webster (1989) describe it as a pattern of shared values and beliefs that help individuals to understand organisational functioning and, thus, provide them with norms for behaviour in the firm. Corporate culture is the organisational dimension which ultimately influences behaviour (e.g., marketing practice) and performance (e.g., productivity) of employees.

Managers can use corporate culture to shape the future direction of their firm (Schneider and Arnon Reichers, 1983; Smircich, 1983). Corporate culture can serve as a tool to improve productivity and if widely accepted, can be used to encourage all employees to subscribe to organisational goals (Wilkins and Ouchi, 1983). Furthermore, it has been found that a strong marketing culture has a positive link with marketing effectiveness (Webster, 1995) and business performance (Deshpande, Farley and Webster, 1993). In this thesis, Chapters 2 and 8 examine the impact of corporate culture on marketing in the context of the UK and Ghana respectively.

Marketing and Performance in Industrialised and Developing Economies: A Review

Several studies which explored the marketing-performance link in industrialised nations during the 1980s suggested a positive relationship between these two variables at the aggregate, strategy and tactical levels. Marketing determinants of success include: infusion of the spirit of marketing in all functional departments and effective interaction with the marketing department (Wilson, 1984); high level of authority bestowed upon marketing department (Piercy, 1985); closer interaction with customers (Peters and Waterman, 1982); and, a sound understanding of the marketplace (Alexander, 1985). Similarly, marketing strategy is positively associated with performance in the following areas: sound product and market strategies (Chaganti and Chaganti, 1983); effective strategic marketing planning

(McKinsey, 1983); and, marketing effectiveness (Hooley and Lynch, 1985). Tactical functions of marketing which have been purported to influence performance include: effective market research (Takeuchi and Quelch, 1983; Alexander, 1985); sound product policies relating to quality and product development (Saunders and Wong, 1985); high levels of customer service (Rothwell and Gardiner, 1984); effective sales promotion and advertising (Blasko and Patti, 1984); and, sound pricing policies (Mikesell and Farah, 1980). For a review of studies examining the contribution of marketing to competitive success up to the mid-1980s, see Baker *et al* (1986).

Similarly, in the 1990s a number of studies have established a positive association between marketing and performance. For instance, Hooley, Lynch and Shepherd (1990) and Avlonitis and Gounaris (1997) identified a positive relationship between organisational marketing philosophy and performance. Market orientation has been found to exert a positive effect on: new product success, sales growth, ROI (Slater and Narver, 1994; Appiah-Adu, 1997a; Appiah-Adu and Ranchhod, 1998; Van Egeren and O'Connor, 1998); *esprit de corps* and organisational commitment (Jaworski and Kohli, 1993). Other dimensions of marketing which are purported to have a positive influence on performance include: marketing culture (Webster, 1993); general marketing orientation (Hooley and Lynch, 1994; Johne, 1994); marketing strategies (Doyle, Saunders and Wong, 1992); effective marketing planning (Cousins, 1994; Denison and McDonald, 1995; McDonald, 1996); and, marketing effectiveness (Appiah-Adu, 1999).

Nonetheless, it must be mentioned that others have found difficulty in substantiating the hypothesised relationship between marketing and performance. These include studies examining the following relationships: implementation of the marketing concept and superior performance (Davidson, 1975); marketing practice and new product development performance (Lawton and Parasuraman, 1980); marketing orientation and competitive success (Baker *et al*, 1994); marketing information and performance (Hart and Diamantopoulos, 1994); and finally, market orientation and performance (Greenley, 1995). In the context of industrialised nations, Chapters 3 to 6 in this thesis add to the existing literature by providing additional insight into the effects of marketing culture, marketing effectiveness and market orientation on competitive success.

In developing economies such as Nigeria and Zambia, the marketing-performance relationship has been explored by investigating the effects of marketing strategies (Okoroafo and Kotabe, 1993; Okoroafo and Russow, 1993) as well as marketing decisions (Okoroafo and Torkomoo, 1995; Muuka, 1997) on performance. Empirical findings from these developing economies indicate mixed evidence regarding the marketing-performance association. Chapters 9, 10 and 11 shed further light on the marketing-performance link by examining the influences of SAP-tailored marketing strategies (Appiah-Adu, 1997b), marketing activities (Appiah-Adu, 1998b) and market orientation (Appiah-Adu, 1998c) on competitive success in Ghana.

Summary of the Works Selected and Their Significance

This section provides a summary of the works selected. Although the central theme is marketing-performance, a close examination of the articles on the UK and Ghana respectively reveals that each set includes a key antecedent of marketing practice, namely corporate culture (Chapters 2 and 8), consequences of sound marketing practice (Chapters 3, 4, 5, 6, 7, 9, 10, 11) and moderators of the market orientation-performance relationship (Chapters 6 and 11).

Chapter 2 - Marketing Culture and Marketing Effectiveness in UK Firms

This article examines empirically the association between marketing culture and marketing effectiveness in the UK. Two theories provide the underlying premise for the research hypothesis. First, the constituency-based theory (Anderson, 1982) purports that a business must fulfil the long-term needs of customers for it to be considered effective in a marketing context and that the firm must have the appropriate marketing culture in order to implement the marketing concept and achieve effectiveness. Second, the market value theory (Kotler, 1988) which postulates that all major decisions within an organisation must be regarded as investments, implies that the decision to create a sound marketing culture should be assessed on the basis of probable return and that such investments are likely to lead to long-term customer satisfaction and, thus, marketing effectiveness. Chapter 2 offers an investigation of these two theories. Moderating effects of firm size and geographical coverage on the culture-effectiveness link are also examined in this study. The research extends Webster's (1995) study by (a) including integrated marketing organisation as a dimension of effectiveness and

(b) utilising a combined manufacturing and service sample. This paper contributes to the literature in three ways. First, it addresses a gap in the literature by responding to the need to examine the link between corporate culture and marketing (Webster and Deshpande, 1989; Webster, 1995). Second, it explores the relationship between the multi-faceted organisation-wide nature of marketing culture and effectiveness by controlling for firm size and geographical scope. This study, therefore, bridges the gap between the marketing, organisational culture and strategy literature. Third, the UK context of the study responds to the need to study marketing culture and effectiveness in diverse contexts to increase our confidence in the efficacy of these concepts (Norburn *et al*, 1990; Webster, 1993). This study facilitates the extension of our knowledge of the impact of a strong culture on organisational effectiveness to non-US firms. Theoretically, the findings augment empirical research in three areas. First, the importance of culture to successful organisational activities is confirmed with respect to marketing practices. Second, contrary to expectations (Canning, 1988; Block, 1989) the study demonstrates that the influence of culture on effectiveness is robust irrespective of geographical scope or firm size, lending further credence to Webster's (1995) findings. Third, the results reinforce Webster's conclusions that: (a) marketing culture is a significant determinant of a firm's marketing effectiveness; and (b) effects of marketing culture dimensions differ depending on the effectiveness dimension.

Chapter 3 - Marketing Culture and Performance in UK Service Firms

This study emanates from Chapter 2 and is based on an examination of the impact of marketing culture on both financial and customer-based performance measures. Three major empirically supported concepts: constituency-based; market value; and, service-profit chain theories, form the basis for hypothesising a relationship between marketing culture and performance of the firm. The constituency-based theory postulates that a business must satisfy customer long-term needs to be profitable (Anderson, 1982) and this calls for firms to strive to implement the marketing concept. If marketing culture is considered as the way "marketing things are done", then the manner of implementation itself is a type of marketing culture. Although some writers argue that performance is an underlying component of a strong marketing culture (Kotler, 1988), others contend that performance is a consequence of a sound marketing culture (Narver and Slater, 1990; Webster, 1993). The market value theory postulates that all major marketing decisions within a firm be considered as investments.

Hence, the decision to improve service quality, internal communications, innovate and so forth, should be assessed against the criterion of potential return. Such investments should be evaluated on the basis of their potential to lead to long-term customer satisfaction, which is associated with customer retention and, ultimately, profitability. These discussions are consistent with the service-profit chain theory (Heskett *et al*, 1994) which posits a strong link between customer satisfaction, customer retention and profitability. The research builds on Webster's (1993) work in the following areas: (a) the investigation of the marketing culture-performance link of service firms in a different (UK) national context; (b) the utilisation of customer-focused measures, namely, satisfaction and retention as additional performance indicators in examining the marketing culture-performance link and (c) the use of firms from a different set of service sectors (cf. Webster, 1993) to facilitate a broader investigation. This research contributes to the literature in three ways. First it adds to existing knowledge by addressing the need to investigate the effect of marketing culture on various performance measures (Narver and Slater, 1990; Webster, 1993). Second, it appears to be the first study to provide empirical evidence of the contribution of marketing culture to customer-based performance in the service sector. Thus, this study bridges a gap in the marketing and service management literature. Third, the context of the study (UK) increases our understanding of the role of a strong marketing culture in other settings and helps to demonstrate the importance of the concept. Theoretically, our results extend empirical research in three areas. First, the finding of a significant positive relationship between marketing culture and competitive success in terms of profitability lends credence to the marketing-performance hypothesis. Second, this postulation is further reinforced by the identification of a strong impact of marketing culture on customer-based performance measures. Third, the finding that effects of marketing culture components on competitive success vary depending on the performance indicators adds new dimensions to Webster's (1993) conclusions. Overall, service quality is established as the strongest contributor to both profitability and customer satisfaction, while innovativeness is the most significant determinant of customer retention.

Chapter 4 - Marketing Effectiveness and Customer Retention in UK Service Firms

This paper investigates the impact of marketing effectiveness on customer retention in UK service firms. The study is significant in terms of the variables investigated. Chapter 4 builds on Chapter 2 which established robust links between marketing culture and effectiveness and

Chapter 3 which identified a generally strong relationship between marketing culture and customer retention. Hence, the same theoretical orientations in Chapters 2 and 3 apply. The difference between marketing culture and effectiveness is that the former is concerned with the way marketing things are done, while the latter is more about the achievement of implementation success. If it is accepted that marketing effectiveness is positively associated with long-term customer satisfaction needs (Anderson, 1982) and satisfaction is positively related to retention (Hallowell, 1996), then by implication the ability to retain customers is influenced by effective marketing practices. Moreover, given that investments in the customer and employees are crucial to marketing effectiveness (Kotler, 1977) and the strong link established between front line staff satisfaction/loyalty and customer retention (Heskett *et al.* 1994), it is contended in Chapter 4 that a service firm's degree of marketing effectiveness is positively associated with its customer retention levels. This research contributes to existing knowledge in three respects. First, it addresses a gap in the literature by responding to recent calls for research to examine the impact of marketing effectiveness on other dimensions of organisational performance in general (Dunn *et al.*, 1994) and customer-focused performance measures in particular (Webster, 1995). Second, it seems to be the first study to provide empirical evidence on the contribution of marketing effectiveness to customer retention in service firms. Hence, this study bridges the gap between the marketing and service management literature. Third, the UK context of the study serves as a spur for further testing of this relationship in other national settings to facilitate the establishment of the universal significance of effective marketing practices on a firm's ability to retain customers. Theoretically, the findings extend empirical research in two areas. First, the importance of marketing effectiveness is confirmed with respect to customer retention. Second, a critical research insight is that different marketing effectiveness dimensions have varying impacts on a customer-based performance indicator such as retention. Overall, the marketing effectiveness component of customer philosophy is found to be the highest contributor to variations in customer retention.

Chapter 5 - Market Orientation and Performance in Biotechnology Firms

This article is original because, so far, it is the only attempt which has been made to develop an exploratory market orientation construct for biotechnology companies and investigate its link with performance. Market orientation requires that a firm understands and meets its

customers' needs and it is postulated that through such efforts the business will outperform its competitors and achieve higher profits. With respect to the Bioindustry it is postulated that a market oriented firm has a greater potential to achieve new product success, through greater functional integration or teamwork in the innovation process. In terms of innovation performance a higher level of market orientation should lead to higher market success of a specific innovation introduced into the market by the business. It is expected that there will be intermediate consequences or advantages of the innovation project, such as providing cost efficiencies for the firm and enhancing the sales and profitability of other products or services. In addition, the measurement of customer satisfaction and response to information generated will have a favourable impact on sales growth and market share. Market orientation is also likely to have a direct impact on profitability. For instance biotechnology companies which strive to understand and satisfy customer needs should offer products or services with relatively fewer problems from the user's perspective which should, in turn, result in greater profitability. In order not to exaggerate the extent of the market orientation-performance link, potential influences on performance such as relative firm size, costs and product/service quality, competitor concentration, time of market entry, market growth, competitive intensity, market and technological turbulence are controlled for. Findings of the main effects analysis indicate that market orientation is significantly and positively associated with growth in market share, profit margins and overall performance, but not with new product success. Moreover, relative size and early market entry are both positively associated with growth in market share, relative cost is negatively related to profit margins, market growth is positively associated with profit margins and technological change is positively related to new product success. This research adds to existing knowledge in three respects. First it addresses a gap in the literature by responding to relatively recent calls for scholars to investigate the effect of market orientation on performance in high technology industries (Narver and Slater, 1990). Second, it is the first study to provide empirical evidence of the contribution of market orientation to performance in the biotechnology sector and, therefore, bridges the gap between the marketing and the new technology literature. Third, the UK context of the study acts as a stimulus for further empirical research in diverse contexts to increase our confidence in the universal importance of the market orientation concept (Narver and Slater, 1990; Deshpande *et al*, 1993). Theoretically, the findings extend empirical research in three areas. First the importance of market orientation to performance is reinforced with respect to effectiveness and

efficiency. Second, the study controls for other potential environmental influences on performance without which the impact of market orientation is likely to be exaggerated. Finally, a significant research insight is that market orientation may have varying effects on different dimensions of performance. In this study, market orientation is found to be significantly and positively related to market share growth, profitability and overall performance but not to new product success.

Chapter 6 - Market Orientation and Performance in Small Firms

This study investigates the market orientation-performance link and potential influences of the relationship among a sample of UK small firms, and then compares the findings with those established in similar studies of large organisations. In the small business sector, it is hypothesised that market orientation has a positive impact on performance. A market culture with an emphasis on competitiveness and an external orientation should increase a small firm's capacity to learn and adapt. This better understanding of the marketplace should also reduce the incidence of new product failures. A greater understanding of customers and competitors by a small firm results in more effective decision making, leading to higher sales growth (Pelham and Wilson, 1996). The tracking of customer satisfaction by a market oriented firm and its timely response to the information generated should lead to customer retention, which positively influences sales growth. In small firms where behaviours are consistently guided by values tailored toward meeting customer satisfaction, the outcome should be higher consistency in decision making and strategy implementation. New product success, sales growth and profitability (ROI) are the three performance indicators investigated. A number of control variables are incorporated in the empirical framework due to their recognised effects on performance but not in the theoretical framework because they are not postulated to moderate the strength of the market orientation-performance link. These include relative size, cost and product quality, competitive intensity, market growth, market and technological turbulence. Findings of the main effects analysis establish a significant and positive relationship between market orientation and all performance measures. In addition, relative size has a positive impact on sales growth and ROI, while relative cost has a negative effect on both performance measures. Product quality and competitive intensity have positive and negative effects respectively on ROI, while market growth has a positive impact on sales growth. Results of the sub-group analysis indicate that competitive intensity, market growth

and market turbulence moderate the links between market orientation and new product success, sales growth and ROI, respectively. This research adds to the literature in three ways. First, it responds to recent calls (Pelham and Wilson, 1996) to expand research on the impact of market orientation on small business performance by building on the limited work on such firms. Second, it provides empirical evidence of the unique influence of market orientation on performance in different contingencies by controlling for competitive environmental variables. This study, therefore, bridges the gap between the marketing, strategy and small business literature. Third, the UK setting of the study responds to the need to study market orientation in different environments to enhance our confidence in the universality of the concept. This study adds to recent efforts to extend our emerging knowledge of the impact of market orientation on organisational outcomes to non-US firms (Pitt *et al*, 1996; Avlonitis and Gounaris, 1997). Theoretically, the findings extend empirical research in three respects. First, the importance of market orientation to successful organisational outcomes is confirmed with respect to new product success, sales growth and profitability. Second, in concert with executive theory (Kohli and Jaworski, 1990; Greenley, 1995), the study demonstrates that the influence of market orientation varies with the perceived turbulence in the marketplace, intensity of competition, and market growth. Finally, a critical research insight is that despite the similar effects of market orientation on performance of small and large firms, the competitive environment seems to moderate the relationship for both sets of firms differently.

Chapter 7 - Marketing in a Liberalised Developing Economy: Emerging Trends and Implications for Strategy

This article focuses on fundamental issues relating to marketing in a liberalised developing economy and also serves as an introductory text to all the empirical studies which are subsequently reported in Chapters 8 to 11 of this thesis. Contents of the article include a review of some of the research themes of the last decade, the introduction of economic reform and structural adjustment programmes in developing economies and the general consequences of liberalisation. A background on Ghana and specific reform policies are provided. In the context of developing economies, the relevance of marketing is highlighted, followed by a discussion on typical marketing practices in a non-reformed developing economy. Next, issues relating to the evolution of marketing systems and marketing organisations are discussed. Moreover, several areas in which sound marketing practices are becoming

increasingly significant in Ghana's transitional marketplace are identified and, finally, the implications of the changing environment for business practitioners are addressed. This research contributes to existing knowledge in a number of ways. First, in response to the suggestion by both practitioners and scholars that a major difficulty in the economic development of developing economies stems from the scant attention paid to the problems and opportunities of marketing (Kaynak and Hudanah, 1987), this article explores the role of marketing in developing economies. Second, the article facilitates a comparison of marketing activities in a typical developing economy with the increased significance of marketing decisions in a liberalised economy. Third, the Ghanaian context of the study responds to the need to study the potential impact of structural adjustment policies on marketing practices and the likely effects on firm performance in individual countries (Okoroafo and Kotabe, 1993). Moreover, since Ghana was one of the first sub-Saharan countries to adopt economic reform, a study based on this country is insightful because of the long-term impact reforms are expected to have had in the marketplace. Fourth, a conceptual relationship of the investigation of marketing approaches and development of marketing applications is developed using Kaynak and Hudanah's (1987) five-stage marketing evolution model based on economic development. An effort is then made to relate firms in Ghana to the five phases of marketing development. Finally, this paper proposes the need to link functional marketing activities to strategic efforts such as planning, operational consolidation and diversification.

Chapter 8 - Organisational Culture and Market Orientation

In the context of Ghana, this research investigates the impact of corporate culture on market orientation. The study is based on but extends Deshpande, Farley and Webster's (1993) four classifications of culture proposed by the *competing values* model and tested in Japan in their recent study. This conceptualisation results in four main types of culture: market; adhocracy; hierarchical; and, clan which are then related to the degree of market orientation among a cross-section of mainly large businesses in Ghana. Referring to Deshpande *et al's* (1993) model, the clan culture, which stresses tradition, loyalty and internal maintenance could result in a lack of attention to changing market needs which, in turn, may lead to a low degree of firm market orientation. The adhocracy culture, with its emphasis on entrepreneurship, innovation and risk taking is expected to have a relatively higher degree of market orientation than the clan culture. The hierarchical culture, with its focus on smooth operations and predictability

in a bureaucratic organisation is likely to lead to a low level of firm market orientation. On the other hand, the market culture, which is based on differentiation, competitive advantage and market superiority, is expected to exhibit a high level of market orientation. In support of our hypotheses market culture was found to have a significant impact on market orientation, implying that the influence of a market culture might transcend national frontiers. The constituents of a market culture such as competitiveness, productivity, competitive advantage and market superiority reflect a culture that stresses the creation of sustainable superior value for the customer, and fosters behaviours required for a firm to generate and respond to market intelligence. Consistent with expectations, hierarchical organisations were the least market oriented. Hence, in firms which are governed by rules and uniformity, with strategic principles founded on predictability and stable operations, the consequence is an inward looking bureaucratic business that is not customer or market oriented. However, the adhocracy and clan types provided non-significant results. This research contributes to the literature in three respects. First, it addresses a gap in the literature by responding to the call to examine the impact of corporate culture on organisational variables in general (Webster, 1995) and marketing practices in particular (Deshpande and Webster, 1989). Second, it seems to be the first study to provide empirical evidence of the contribution of corporate culture to market orientation in a developing economy and, hence, bridges the gap between the culture, marketing and international business literature. Third, the Ghana context of this study responds to the need to examine the global universality of a competitive corporate culture that might transcend a more consensually oriented national culture and, indeed, the market culture finding confirms Deshpande *et al's* (1993) conclusions. Theoretically, the findings extend empirical research in two areas. First, the significance of corporate culture to successful market oriented behaviours is reasonably well supported. Moreover, an important research insight is that different types of culture have varying effects on market orientation.

Chapter 9 - Marketing in Emerging Countries: Evidence from a Liberalised Economy

This article discusses the importance of marketing in the business environment of a liberalised developing economy. It builds on the background information provided in Chapter 7 and explores further the significance of marketing principles and application in developing economies which have instituted policies to liberalise their economies, with a focus on Ghana, which has been hailed by World Bank and IMF analysts as a successful bright star of the

developing world. Several domains in which sound marketing strategies are assuming growing importance in Ghana's evolving marketplace are highlighted. To offer alternative means of gaining additional insight into our understanding of markets, this article uses a case approach to discuss three large multinational companies which have achieved superior performance as a result of improved marketing practices in the new environment. Core marketing-related issues centred on products, pricing, promotion, distribution, customer satisfaction, branding and market research are addressed. Efficiency measures such as rationalisation and operational efficiency as well as strategic planning, innovation and total quality management are also discussed. Performance indicators employed include operating profits, return on assets, net profit before and after tax, market share, sales growth and new product development success. Implications of the changing environment for managers of both foreign and domestic firms are addressed. This study contributes to existing knowledge in a number of ways. First, from a practical viewpoint, it examines the character and importance of those practices enhancing ongoing marketing efforts of selected multinational firms in order to identify distinguishing practices which have provided them with an edge in the marketplace. Second, from a theoretical standpoint, an attempt is made to relate SAP-tailored marketing strategies to business performance. The study fills a void in the literature by responding to calls to explore the influence of marketing strategies on objective dimensions of performance (Okoroafo, 1996). Third, from a methodological perspective, a case approach instead of a mail survey is employed to provide additional insights into the extent of marketing practices of the selected firms. Although it may be argued that multinational companies are destined to do well because of their immense resources, it has been found that in some developing economies, domestic firms have become effective competitors who have managed to steal share from some of these multinational giants such as Unilever PLC, through the utilisation of sound product, pricing and distribution strategies (Vachani, 1989). Fourth, the Ghana context responds to the need for research in different contexts to enhance our confidence in the impact of marketing strategies on performance (Okoroafo and Russow, 1993).

Chapter 10 - Marketing Activities and Performance of Foreign and Domestic Firms in Ghana

Against the background of reform in Ghana's economy, Chapter 10 builds on Chapter 9 by examining empirically the impact of marketing mix activities such as product, pricing,

promotion, distribution, market research, customer satisfaction and customer service efforts on performance among predominantly large foreign and domestic manufacturing companies. The study's first hypothesis is based on previous research (Chong, 1973; Akaah and Riordan, 1988) which suggests that foreign firms tend to emphasise customer service, offering superior product and quality package. They have products with recognisable brand names and pursue practices which have been tested and perfected in their home markets. Foreign firms are familiar with competitive marketing activities because of the experience acquired in their home markets. It is therefore hypothesised that on the whole, the marketing activities of foreign firms are likely to be superior to those of domestic firms. Drawing on precepts from previous research in liberalised economies as well as fundamentals of the marketing concept, it is surmised that effective marketing activities will be positively related to performance of foreign and domestic organisations. This research contributes to the literature in three respects. First, it addresses a gap in the literature by responding to calls for research to examine the impact of marketing mix activities on a variety of performance dimensions in liberalised economies (Golden *et al*, 1995). Second, it appears to be the first study of liberalised African economies to provide empirical evidence of the unique contribution of individual marketing mix components to performance. Third, the Ghana context of the study complements recent research efforts in liberalised economies in other African countries (Okoroafo, 1996) and areas such as Central and Eastern Europe (Hooley *et al*, 1998). Theoretically, the findings extend empirical research in three areas. First, eight of the ten marketing mix activities for both foreign and domestic firms are established as significant determinants of performance in the medium- to long-term, confirming the importance of marketing in developing economies (Akaah and Riordan, 1988; Dadzie *et al*, 1988). Second, the overall superiority of foreign firms' marketing activities is upheld (Chong, 1973; Okoroafo, 1996). Finally, a critical research insight is that foreign companies appear to perform better on profitability and efficiency measures compared with domestic firms' higher performance in sales-related measures.

Chapter 11 - Market Orientation and Performance in a Transition Developing Economy

This study examines the impact of market orientation on performance in a liberalised developing economy. In such economies, market oriented firms are likely to emphasise customer and competitor focused strategies. Marketing operations will take into consideration

customer attitudes and benefits. Hence, there will be a focus on understanding customer needs, emphasising customer satisfaction and service, market research and new product development. Such firms will seek to obtain a competitive advantage by discussing and responding rapidly to competitors' actions. Moreover, market oriented firms are likely to ensure that all functions contribute to customer value and are integrated in strategy development. Previous research based on developing economies report a positive link between market orientation and performance (e.g., Chang and Chen, 1994; Bhuain, 1996). Indeed, a recent study by Pitt *et al*, (1996, p.14) concludes that "... this relationship extends to whole companies, in different industries and countries irrespective of culture or level of economic development." Thus, a positive link is hypothesised between market orientation and performance in Ghana's liberalised economy. Sales growth and profitability (ROI) are the two performance indicators of interest in this study. Several control factors are included in the empirical framework due to their recognised effects on performance. These include relative size, relative cost, customer power, ease of market entry, market growth, competitive intensity and market dynamism. To determine the influence of external moderating influences on the market orientation-performance link, an adaptation of Golden *et al's* (1995) factors in liberalised economies, reflecting Kohli and Jaworski's (1990) measures is utilised. Findings of main effects indicate no direct impact of market orientation on performance. Relative size and relative cost are respectively positively and negatively associated with both sales growth and ROI while market growth is positively associated with sales growth. The moderated regression analysis demonstrates that market orientation has a higher impact on sales growth in environments exhibiting medium to high levels of competitive intensity. Moreover, market orientation has a greater effect on ROI in conditions characterised by low market dynamism. This study contributes to the literature in several ways. First, it addresses a gap in the literature by responding to recent calls for research to develop constructs for measuring market orientation in environment specific situations (Cadogan and Diamantopoulos, 1995). Second, it empirically examines the character and importance of those elements constituting a market orientation in a liberalised developing economy. In this context, it appears to be the first study to provide empirical evidence of the link between market orientation and performance in different contingencies by controlling for competitive environmental factors. This study, therefore bridges the gap between the marketing, strategy and international business literature. Third, the Ghanaian context of this study responds to the need to study market orientation in

diverse contexts to increase our confidence in the universality and global importance of the concept. Theoretically, the findings extend empirical research in three areas. First, the significance of market orientation to successful organisational outcomes in a developing economy may be limited in the short-term. Second in concert with executive theory (Kohli and Jaworski, 1990; Golden *et al*, 1995), the study demonstrates that the influence of market orientation on performance varies with the perceived intensity of competition and market dynamism. Third, this initial effort should act as a stimulus for longitudinal research to test for causal links between market orientation and performance.

Managerial Implications: UK (Industrialised Economies)

Drawing upon the majority of works reported in this thesis which are rooted in the marketing-performance framework, the findings have implications for executives of industrialised nations in general and the UK in particular. If, as is postulated, marketing generally has a positive impact on performance, then managers need to consider how marketing practices can be improved within their firms. In a clear confirmation of the advocacy of the manifestation of an appropriate culture and marketing orientation in the service industry of the UK, it would seem that businesses are increasingly paying attention to the importance of establishing a sound marketing culture within the firm. Despite the continued growth in activity across the entire industry (Akehurst, 1996), where a marketing culture is being nurtured effectively, there is ample evidence that it is contributing positively to customer satisfaction, retention and profitability.

Concerning the inherent dynamism of the wider service environment, many firms are searching for cost-effective means of differentiating their offerings, building relationships with customers and ensuring that their message is heard in an increasingly competitive marketplace. Perhaps the time has now arrived where no participant in the industry can ignore the benefits that a sound marketing culture can provide in creating a competitive advantage, regardless of what sector of the service industry to which they belong. Marketing effectiveness has also been found to be a key determinant of customer retention. If we accept the basic tenets of the service-profit chain (Heskett *et al*, 1994), which postulates that profitability and growth are stimulated principally by customer retention, then service firms should at the very least be seeking to achieve customer satisfaction through value provided to customers. In achieving

the above, all marketing effective firms seek to benefit from increased sales, reduced customer acquisition costs and lower costs of serving repeat buyers. The ultimate goal, which is repeat purchase serves as a very large carrot for the implementation of strategies designed to raise customer retention levels.

The finding that market orientation is positively related to performance among small business enterprises (SBE) is of significance to SBE executives given Liu's (1996) findings that the larger a business, the more difficult it is to implement market orientation. Hence, SBE managers, who usually are able to inject market-oriented measures more easily have a distinct potential of adopting a market oriented culture as a means to achieving a competitive edge. It is also easier for such managers to exploit the benefits of flexibility and simplicity (Feigenbaum and Karnani, 1991) that such an organisational structure offers with that market orientation. However, market orientation is a unique form of business culture. Enhancing and maintaining this orientation is not easy and it involves the commitment of considerable organisational resources. Hence, despite the finding that environmental factors influence the market orientation-performance link, it is essential to determine whether such conditions are prevailing enough to necessitate *adjusting* a firm's level of orientation to match them, given the complexity of changing organisational culture. In addition, owing to possible lagged effects on the orientation-performance link, a market orientation strategy should be planned as a long-term investment (Greenley, 1995), if an SBE can see beyond the temptation to focus on immediate results and surmount the commercial pressures associated with achieving short-term goals.

The positive impact of market orientation on growth, profitability and overall performance in the new technology (Bioindustry) sector is probably due to the increasing emphasis placed by managers of such companies on the importance of understanding markets. Although a general positive link is identified between market orientation and performance, other environmental variables which are considered to influence performance need to be taken into account and controlled for when estimating the impact of market orientation on competitive success. Without such control factors, the influence of market orientation on performance is likely to be exaggerated. For the Bioindustry external factors include market and technological turbulence, competitive intensity, market growth and competitor

concentration. However, the variables to which managers should pay most attention seem to be controllable internal factors such as product quality and costs as well as time of entry into new markets.

Managerial Implications: Ghana (Developing Economies)

Findings from the research on Ghana, which lend partial support to the proposition that sound marketing practices do influence performance, have implications for managers of liberalised developing economies in general and Ghana in particular. Specifically, the marketing-performance link is stronger over the long-term. Although marketing activities are on the increase, foreign firms are characterised by superior marketing practices compared with their domestic counterparts. This portends long-term anxieties for indigenous firms which need to maintain a competitive edge in order to survive. These results may stem from the fact that domestic managers still do not *fully* appreciate the benefits of certain marketing functions, as evidenced in the extent to which they utilise pricing and promotion tools. This problem could be resolved by providing training on the relevance of all marketing activities to the firm, emphasising customers as the focus of all marketing efforts. Given the highly competitive Ghanaian environment, this issue is quite crucial because effective marketing activities will become increasingly important for survival or maintaining a competitive advantage. In addition to in-company training efforts, there is a pressing need for transfer of marketing knowledge to developing economies. New forms of marketing could also be developed through the modification of Western techniques and adaptation of these tools to suit a country's culture. Both managers and employees can benefit from these transfers through more formal educational procedures which lead to the attainment of academic qualifications. In this context, colleges and tertiary institutions will serve as the primary agents of such transfers and provision of educational funding for these purposes should be seriously considered.

Performance of marketing activities by domestic and foreign executives may provide an indication of the perceived importance of these activities to their firms. However, based on the contention that sound marketing practices result in higher performance over the long-term (Jacobson and Aaker, 1987; Okoroafo and Russow, 1993), it is important for managers to fully understand the benefits associated with marketing activities in order to perform them

effectively. This calls for procedures to formalise marketing programmes with an aim of redressing the apparently *ad hoc* approach that generally characterises certain aspects of marketing practice, particularly among indigenous businesses. With respect to investment prospects, the background provided on the economy indicates that numerous opportunities are available to entrepreneurs from both industrialised and developing economies. Establishing subsidiaries or branches can be cost effective, particularly in countries which have floated their currencies and experienced a sharp drop in value relative to currencies of industrialised nations. Although misplaced policies of the pre-SAP periods do plague the economy, a long-term view can pay dividends.

Evidence of Claims that Works Selected are Equivalent to a PhD by Conventional Route

The works undertaken and publications presented in support conform to the standard research processes involved in a conventional doctoral route in that they cover:

- (i) the identification of a question;
- (ii) a comprehensive review of relevant existing literature;
- (iii) the development and testing of new hypotheses with a clear underlying theoretical framework;
- (iv) the development of appropriate methodologies fit for the purpose;
- (v) the analysis and substantiation of results;
- (vi) conclusions and discussions; and
- (vii) managerial and future research implications with a clear understanding of where and to what extent knowledge has been extended, modified and augmented.

It is believed that this body of work has demonstrated a coherent contribution to existing knowledge extending from an underlying intellectual base exemplified by, for example, the many other publications of the candidate which underpin the research, though they do not directly constitute part of the submission. These published works are evidence of sustained progress systematically achieved through research efforts covering a period of three years.

Combining all the works on industrialised and developing economies, the theme that binds them together is the marketing-performance paradigm. Within this framework, three clear strands for both types of economies emerge: (i) the influence of corporate culture on marketing (Chapters 2 and 8); (ii) the impact of marketing practice on performance (Chapters 3 to 6 and 7, 9, 10, 11); and lastly (iii) effects of environmental influences on the market orientation-performance relationship (Chapters 6, 11).

Account and Critique of Research Methodologies Used

A number of the chapters in this thesis (especially Chapters 2, 3, 4, 5, 6, 8, 10 and 11) have been designed to generate primary data among businesses. This is entirely different from industry or government data which is generally of limited value in much competitive research because of the level of aggregation that extends beyond the product or business unit level of most strategic research. Consequently, eight of the ten studies in this thesis focus on data collection, processing and analysis based on primary research. The methodologies used involve a range of approaches. Sample sizes range from three companies used in a case approach (Chapter 9) to the 235 responses obtained in a survey of large UK organisations (Chapter 2). Firm size varies from those employing between 10 and 50 staff (Chapter 6) to those with over 500 employees (Chapters 3 and 4). Samples range from as wide as a cross-section of manufacturing and service organisations (Chapters 2, 6, 8 and 11) through different firms within the same industrial sector (e.g., service industry), to as narrow as the UK biotechnology sector (Chapter 5). Most of the empirical studies start with a survey of existing research and in-depth interviews with managers to explore the dimensions of the issues at stake. Hence, a number of face-to-face contacts are made with potential respondents during the exploratory stage. In addition to the primary empirical research, the works include a purely conceptual paper (Chapter 7) and an article based on a case study (Chapter 9).

Data analysis techniques range from the use of published sources of objective data to the application of both conventional and sophisticated multivariate techniques. Most of the research reported in this thesis is conducted by asking managers their opinions because of the author's desire to gain a better understanding of markets and business and make the findings of practical value to practitioners. The cross-sectional approach in studies relating to the service industry, small business sector and a developing economy, provide sound foundations

for theory construction, thus, offering useful insights to academic researchers in these fields. The case approach also provides additional insight into our understanding of markets, though caution must be exercised about generalisations based on specific scenarios at particular points in time.

The research adopting structured methods come closest to conventional marketing research methods (Saunders, 1994). Most of these commenced with a review of existing knowledge and in-depth interviews with business practitioners to analyse the nature of the problem. The size of the samples obtained through structured research provided a number of benefits compared to qualitative and semi-structured techniques. Since modest variations across data are statistically significant, weak relationships or marginal shifts over time could be tracked. The large samples also permitted partitioning into distinct groups which could then be worked on separately. It was possible to employ traditional multivariate techniques such as regression and discriminant analysis, as the number of observations was often greater than the number of variables. The small samples usually associated with semi-structured surveys mean that their hypotheses must relate to very strong associations otherwise their results will not be statistically significant. On the other hand, the large samples employed by structured researchers permit them to search for unanticipated relationships within their data.

There are however some limitations of structured methods which need to be appreciated. Only a limited number of questions can be asked and those must be straightforward. Response rates reduce sharply with length and sophistication of a questionnaire. Large respondent size implies that sample errors are remote but sample bias can be a problem. In the micro context, there are difficulties since the researcher has minimal control over who actually completes the questionnaire or how satisfactorily they do it. Where questionnaires are addressed to a specific individual, it is possible that a gatekeeper will ask someone else to fill it in. In the macro context, respondent firms are self-selecting because most do not return their questionnaires. A combination of demographic comparisons and follow-up telephone contacts can verify sample representativeness on some but not all measures. Having said this, it is noteworthy that the many statistical benefits of the structured method offset its limitations. The robust approach of structured methods, plus the fact that they include the use of qualitative interviews mean that their findings are not only statistically

significant but also qualitatively revealing.

Critical Review of Candidate's Development as a Researcher Over the Period

As former Research Group Leader of the Marketing Department in the Southampton Business School, the candidate developed his own initial work and ideas to lead a small team, exemplified by the co-authoring of some of the papers submitted. This is evidenced by the investigation and gaining of new insights into marketing-related issues in the UK context. To contribute thoroughly it was essential to build on existing knowledge so that leadership was established upon *personal design authority*. In managing this work it was essential to: set the objectives at every stage; initiate lines of enquiry; argue logically and soundly for specific research design goals; contribute original ideas in the inception and adaptation of research designs; discuss analytical approaches for testing hypotheses; design pilot surveys for testing research instruments; and, establish the validity of questionnaire measures. In the four cases of co-authored refereed papers the candidate has been the senior author or the corresponding author for questions raised by readers. A small group of colleagues were introduced to publication and mentored by the candidate as part of the process of introducing them to active research. Six of the ten papers presented in this thesis are single authored, indicating the ability of the candidate to work on his own as well as in a team.

In addition to the ten refereed journal articles submitted in this thesis, four more co-authored refereed journal articles and six refereed conference papers relating to the marketing-performance theme have been presented at the leading marketing conferences in the world including the Academy of Marketing, European Marketing Academy and American Marketing Association conferences. Having been the sole presenter and defender of the conference papers, or at least co-presenter, the candidate is senior author of three of the four refereed journal articles mentioned above. These works were not selected because it was considered that their inclusion would polarise the focus of the theme. The volume of publication reflects both the quantity and quality of the research undertaken and the ten papers presented in this thesis indicate the significant and totally involved contribution of the "author".

Conclusion and Research Implications

Considering all the studies reported in this thesis, the main conclusion which can be drawn is that (i) corporate culture influences marketing practice, (ii) sound marketing practices impact upon performance, (iii) environmental factors influence the market orientation-performance link. Specifically, the findings of the UK study reveal that variations in each component of marketing effectiveness are explained by changes in all the dimensions of marketing culture. In service firms, marketing culture is found to be a significant determinant of customer satisfaction, retention and ROI, with service quality exerting the greatest impact on all three performance measures. Moreover, a highly significant link is established between marketing effectiveness and customer retention. Customer philosophy is the effectiveness dimension which exerts the strongest influence on customer retention. Within the high technology (Bioindustry) sector, market orientation is found to have a significant impact on market share growth, profit margins and overall performance, after taking into account the potential effects of important environmental influences on performance such as market, competitive and technological factors. Finally, market orientation is found to exert a positive impact on new product success, sales growth and ROI in the small business sector, although the links are moderated by market turbulence, competitive intensity and market growth respectively.

The findings on Ghana indicate that the highest and least market oriented firms are characterised by market and hierarchical culture types respectively. Moreover, market leaders in the manufacturing and service sectors appear to be utilising sound marketing and business strategies tailored to the economic reforms taking place as they strive to maintain a competitive edge and superior performance. Comparing domestic and foreign firms, the latter appear to be superior in their application of marketing principles and this is demonstrated in the significant links found between all their marketing activities and performance. Overall, market orientation is found to have no significant impact on short-term sales growth or ROI, though these relationships are moderated by competitive intensity and market dynamism respectively.

Generally, both sets of findings lend support to the marketing-performance hypothesis. However, much more work is required if we are to appreciate the mechanisms and implications of sound marketing practice in the competitive contexts of both industrialised and

developing economies. It is important to explore further the dynamics of marketing orientation, of business performance in order to reinforce the universal significance of the marketing discipline, and it is contended that a useful approach to this is to test the marketing-performance framework in diverse contexts. Given the global importance of markets and competitive success in today's marketplace, this issue will continue to attract the attention of marketing academics and practitioners alike.

In a relatively recent article, Wensley (1995, p.79) summed up the current state of the marketing-competitive success research:

"The fact that key organisational problems will continue to be framed as marketing or market related whilst the knowledge base in the area will remain so incomplete that it will be impossible to routinise the solutions to such problems would seem, by a process of contradiction, to enhance the prospects for the field of marketing."

Understanding the organisation of markets and behaviour of individuals within them remains a major challenge. Indeed, while the majority of studies in the UK reported in this thesis support the marketing-performance hypothesis, other previous studies using different operationalisations provide mixed findings. In the context of Ghana, the studies yield different findings depending on the marketing construct employed. There appears to be a consistently positive relationship between foreign firms' marketing practices and performance, while some but not all marketing practices of domestic firms exhibit a positive relationship with performance. Moreover, in Ghana, a significant link between the two variables generally emerges over a longer time span (e.g., five years) compared with similar analysis over a shorter duration (e.g., three years). However, in the UK, assessments of relationships over both three and five year periods do yield positive results.

Clearly, important progress has been made but, undoubtedly, further theoretical work, as spelt out below, is still required. Returning to the key hypotheses of the marketing-performance paradigm advanced at the commencement of this chapter, while the studies reported in this thesis lay a foundation for analysing the relationship between marketing and performance in a global context, further research efforts in industrialised nations would add to existing knowledge by exploring the following propositions:

- the impact of marketing culture on performance is likely to be moderated by the degree of marketing effectiveness (Webster, 1995);
- the effect of marketing effectiveness on performance is likely to be influenced by firm size and geographical coverage (Canning, 1988; Block, 1989).

Future research could also focus on processes for developing a broader market oriented culture and for taking advantage of it through reinforcing organisational processes, capabilities and strategies. Since in its highest form, a market orientation is conceptualised as a learning orientation (Day, 1994; Sinkula, 1994), future efforts should examine whether other variables such as entrepreneurial values, leadership style and organisational structure enhance the impact of a market orientation on performance. Some authors have set this agenda in motion (e.g., Baker *et al.*, 1994; Slater and Narver, 1995; Morgan, Katsikeas and Appiah-Adu, 1998) but more research is required in this area to capture the overall benefits of a learning organisation's holistic approach to the marketing discipline. In this context, the following propositions could be examined:

- market orientation will exert a stronger influence on competitive success when it is linked with entrepreneurial values such as tolerance for risk, proactiveness, receptivity to innovation and active resistance to bureaucracy (Kohli and Jaworski, 1990; Naman and Slevin, 1993);
- market orientation will exert a greater effect on performance when it is coupled with facilitative leadership (Senge, 1990);
- market orientation will have a higher impact on performance when it operates within a firm characterised by an organic structure and flexible planning style (Slater and Narver, 1995).

Another area that remains to be tested empirically, specifically in a developing economy context is drawn from Kohli and Jaworski's (1990) argument that a market orientation offers several psychological and social benefits to employees. It is argued that a

market orientation engenders a sense of pride in being part of a firm in which all functions and staff work toward the common purpose of meeting customer needs. Achievement of this goal is purported to lead to individuals sharing a feeling of worthwhile contribution, a sense of belonging to one family and, consequently, commitment to the firm. Thus, the following propositions could be examined:

- the greater the market orientation, the greater the *esprit de corps* within the organisation (Jaworski and Kohli, 1993);
- the greater the market orientation, the greater the organisational commitment of employees (Jaworski and Kohli, 1993).

A further area of recent research which provides a stimulus for future research is the issue of market orientation from an international marketing perspective. Due to the complexities of the global marketplace, practices which epitomise a market orientation in a domestic context may not represent this orientation in an international setting (Diamantopoulos and Cadogan, 1995). Given the arguments that market oriented firms tend to have more proactive international motives, and also tend to be more active and committed exporters than non market oriented firms (Dalgic, 1994), the following proposition could be tested in subsequent research:

- market oriented organisations in international environments are more profitable in the international arena than non market oriented firms.

While this set of propositions does not constitute an exhaustive list, it illustrates the substantial potential for future research. The effort in this thesis has spurred this development of knowledge in modest but notable ways. It is with this essentially positive perspective in mind that this thesis should be judged.

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CHAPTER 2

Marketing Culture and Marketing Effectiveness in UK Organisations, 1997, Journal of International Marketing and Marketing Research, volume 22, number 2, pp 87-107

Abstract

As a consequence of the increasing efforts by organisations to develop a competitive edge in their respective business sectors, the management literature is replete with conceptual propositions on sound business practices and strategies for success in today's competitive marketplace. In this regard, the marketing philosophy has received considerable attention from practitioners as well as academic researchers because marketing is considered as a driving force for business strategies and operations. Thus, the significance of an organisation's marketing culture, marketing effectiveness and their possible interrelationships, has attracted the interest of researchers in recent years. This article adds to the growing body of such studies by investigating the potential links between dimensions of a firm's marketing culture and marketing effectiveness among firms in the United Kingdom (UK). The study is based on 235 responses received from a sample frame of 1000 organisations representing a 23.5% response rate. All businesses in the sample frame employed at least 500 workers. Data generation was achieved through mail questionnaires and respondents were middle-level managers of the selected firms. The marketing culture instrument is derived from Webster's (1995) measures, while marketing effectiveness is based on the dimensions of Kotler (1977) and Webster (1995). A variety of statistical techniques is used to analyse the data. The results suggest the existence of some significant relationships between various components of the two constructs, albeit of varying importance. Among the major findings are the following: marketing effectiveness among UK firms is significantly influenced by the level of importance placed on marketing culture; individual dimensions of marketing culture have varying degrees of influence upon the components of marketing effectiveness; the impact of marketing culture upon marketing effectiveness is robust notwithstanding the potential effects of firm size and geographical coverage of a business. The findings imply that the development of a strong marketing culture is a vital factor for UK organisations given that marketing effectiveness has been found to be positively related to performance. Thus, firms which foster a sound marketing culture will not only achieve improved customer satisfaction, market orientation and operational efficiency than their competitors, but are also likely to obtain enhanced

financial performance.

Introduction

The competitive environment of modern day business appears to demand the successful implementation of marketing, if a firm is to progress in its chosen market segments. Marketing is considered as the driving force behind strategic planning and business operations, and thus, an integral part of organisational efforts. Consequently, over the last few years, the concept of marketing effectiveness has received increased attention among academic researchers and business practitioners (Norburn *et al*, 1990; Lai *et al*, 1992; Ghosh *et al*, 1994; Dunn *et al*, 1994). This steady stream of management literature has encouraged business executives to improve their marketing effectiveness because of its inherent association with organisational variables such as improved customer satisfaction; profit maximisation; competitive advantage; and, organisational coordination (Kotler, 1977; Dunn *et al*, 1994; Webster, 1995). Specifically, it has been suggested that marketing should be treated as a profession if firms are to enhance effectiveness, efficiency and competitiveness (Miller and Leptos, 1987). Moreover, others argue that the achievement of excellence requires a pivotal function for effective marketing capabilities (Hooley *et al*, 1984).

Due to the recognition of the important role played by an organisation's culture in the management of the marketing function, a related concept which is attracting growing interest among scholars and managers is how organisations can cultivate a strong marketing culture. Marketing scholars have investigated the influence of culture on a variety of management and marketing-related organisational variables. Since marketing is regarded as the whole business from a customer's perspective, the marketing philosophy represents a corporate culture, a basic set of values and beliefs, which place the customer at the heart of the organisation's approach to strategies and operations (Deshpande and Webster, 1989). Culture has been proposed as a key determinant of success in the implementation of marketing strategies (Walker and Ruekert, 1987), as well as an important influence on sales effectiveness (Weitz *et al*, 1986) and management effectiveness (Parasuraman and Deshpande, 1984). Furthermore, a number of inter-related strands of recent conceptual and empirical analyses suggest that marketing culture is inextricably linked to marketing effectiveness (Norburn *et al*, 1990; Dunn *et al*, 1994). Despite the significance of, and attention devoted to these two organisational variables,

only few scholars have made efforts to empirically examine the nature and character of the hypothesised association between these constructs (Webster, 1995).

Consequently, this study focuses on marketing operations and practices within UK firms. The main purpose is to contribute to the sparse literature base by exploring the linkage between marketing culture and marketing effectiveness. In the remainder of this paper, we first provide a conceptual background of marketing culture in the context of organisational culture as well as marketing effectiveness, and present the hypotheses. Next we discuss the research method, followed by a discussion of the research findings. Finally, the managerial relevance of the findings and future research directions are addressed.

Conceptual Foundations

The Significance of Culture

Notwithstanding the scant empirical research on culture, the subject has been the focus of conceptual research and debate for many years. Culture has been discussed extensively in the academic and popular literatures (Peters and Waterman, 1982; Schein, 1985) and many definitions and conceptualisations of the construct have been proposed. Some definitions provided in the pertinent literature include: a pattern of beliefs and expectations shared by organisation members (Schwartz and Davis, 1981, p.33); and, some underlying meaning, that persists over time, constraining people's perception, interpretation and behaviour (Jelinek *et al*, 1983, p.337). Based on a comprehensive review of the management literature, Deshpande and Webster (1989) concluded that organisational culture refers to a pattern of shared values and beliefs that help individuals to understand organisational functioning, and thus, provide them with norms for behaviour in the firm. Described as the unwritten policies and guidelines, *the way we do things here* (Schneider and Rentsch, 1988), culture is believed to exert a major impact upon the hidden forces within a business which influences behaviour and performance of its employees, probably more than the formal procedures and systems. Furthermore, culture is a critical component which executives might utilise to shape the direction of their business (Smircich, 1983), and it influences the pattern of search for information as well as its evaluation once found (Demirag and Tylecote, 1992). Culture also affects productivity, the way in which a business adapts to external variables in the marketing environment and how new employees fit in (Schneider and Arnon Reichers, 1983). These pervasive influences

reinforce the need for organisations to give prime attention to the concept of culture in their operating environments.

Marketing Culture

In the context of organisational culture, marketing culture represents the latent and formally decreed. In a marketing sense, this represents a pattern of shared values and beliefs which enable individuals to appreciate and 'feel' the marketing function, thus, providing them with norms for behaviour in the organisation as well as the significance attached to the marketing function (Webster, 1995). Basically, it is the way marketing *things* are done in a firm. Marketing culture has been conceptualised as a multidimensional construct which is based on the importance given to quality, innovativeness, interpersonal relationships, the selling activity, internal communications and organisation (Webster, 1993). Thus, a facet of marketing culture is one which emphasises the adoption of innovations pertinent to that specific sector. The workforce as well as customers should be able to sense this culture both directly and indirectly (e.g., by noting the efforts made by a firm to keep up with technological advances, the encouragement of new ideas, its drive for new product success and reward for successful technological breakthroughs). Another component of marketing culture may be a focus on efficient organisation among employees regardless of one's position within the firm. This may be evident from the emphasis placed on the proper management of time, professional appearance and conduct, well organised work areas, etc. Others may place more importance on quality, thereby, stressing the provision of exceptional products or services, employee behaviour and image of the firm, customer needs and desires, etc. Consequently, the marketing culture will be formed by the blend of different emphases given to these various dimensions.

Marketing Effectiveness

A business which is considered to possess a high level of marketing effectiveness is one which has a close relationship with customers, is guided by a common set of values and exhibits an external orientation to its markets (Norburn *et al*, 1990). First, customer relationships are characterised by a service orientation, a drive towards innovation, a focus on quality, and a perspective of an organisation from the customer's viewpoint. Second, the set of values must be clear and identifiable, with an emphasis on being *first class* and on the value of people.

Third, the external focus on markets recognises the significance of the marketplace as an important influence on corporate action.

The importance of marketing effectiveness to modern day businesses has been expounded by several writers (Reisberg, 1990; Webster, 1995). In an effort to determine the factors that distinguished superior organisations from their competitors, Peters and Waterman (1982) identified two major organisational variables - effective marketing practices and customer orientation. Hooley and Lynch (1985) found that a common characteristic of the best performing UK firms was *marketing excellence*. Similar observations were made by Kiel *et al* (1986) in a study of Australian firms while on a national scale, it has been reported that Japan's economic performance is attributed mainly to the focus on marketing for global sales (NEDO, 1982). Webster's (1988) findings suggests that marketing is gaining increasing attention among executives due to its importance as a competitive tool in the business environment. It is contended that effective marketing will not only distinguish the amateur from the professional players in the global market, but it also has the potential to launch a new era of economic prosperity and high living standards (Ghosh *et al*, 1994; Kotler, 1996).

Although several researchers have conducted empirical investigations involving the concept of marketing effectiveness, few measures of the construct exist. The most renowned and often used conceptualisation is Kotler's (1977) operationalisation. In Kotler's view, the marketing effectiveness of a firm involves a combination of five activities, namely: customer philosophy; integrated marketing organisation; adequate marketing information; strategic orientation; and, operational efficiency. First, it is necessary to recognise the importance of studying the market, identifying the numerous opportunities, choosing the best segments of the market to operate in and making an effort to provide superior value to satisfy the selected customers' needs and wants. In addition, the firm must be adequately staffed to enable it to conduct marketing analysis, planning, and implementation. Next, successful marketing demands that adequate information is available to managers for the purposes of planning and effective resource allocation to different markets, products and territories. Effectiveness is also contingent upon the ability of managers to produce profitable strategies from marketing philosophy, organisation and information resources. Finally, marketing effectiveness depends on the ability to implement marketing plans successfully at various levels of the organisation.

It is important to note that marketing effectiveness and profitability are two different concepts. The contention is that performance indicators such as levels of sales and return on investment are contingent upon marketing effectiveness which, in turn, is largely determined by marketing culture (Webster, 1995).

Hypotheses Development

Marketing Culture and Marketing Effectiveness

Despite the widespread acceptance of the marketing concept in principle, the development of management skills required to effect marketing plans still remains a problem area for many firms. Research findings suggest that only a few businesses really understand and perform sophisticated marketing activities. For instance, Hooley and Newcomb (1983) observed that British firms were characterised by dominant production oriented cultures and a general lack of market oriented behaviours. This assertion was supported by Doyle *et al* (1985) who reported that in comparison with their Japanese counterparts, British firms tended to be more financial or production oriented than marketing focused. In the US, Kotler (1977) observed that marketing was one of the most misunderstood organisational functions and that only few Fortune 500 firms applied sophisticated marketing practices. Later surveys suggested that the cultivation of a marketing focus was still a problematic issue within many organisations; with a large number performing below their full potential (Webster, 1981; Payne, 1988).

It has been suggested that one main reason why firms fail to achieve marketing success is the existence of organisational barriers which hinder the implementation of marketing programmes and customer focused strategies. These obstacles include both organisational and marketing functions, and their related systems and policies (Webster, 1988). However, beyond this argument is the contention that there is a more pertinent underlying issue associated with the poor performance of marketing activities by firms, namely, the human element involved in developing and implementing marketing strategies or the organisation's marketing culture (Dunn *et al*, 1994). Although many businesses have structures, procedures and systems to guide them in their marketing operations and practices, the human dimension has a significant influence on the successful execution of marketing plans, since their formulation and implementation depend on individuals in the firm (Piercy and Morgan, 1994). The appropriate culture required for marketing effectiveness is one that is built on a customer orientation which

permeates the entire organisation, and hence, the development of a suitable environment is crucial for marketing success.

Marketing effectiveness is largely determined by individuals in the organisation and calls for employees to be united by a common set of corporate beliefs and values. Through these norms, a suitable environment is created for management to demonstrate a commitment to personal empathy, promote a customer response of perceived quality, and ultimately, develop a progressive organisation (Norburn *et al*, 1988). Secondly, previous empirical findings in the US suggest that firms with a strong marketing culture demonstrate a higher level of marketing effectiveness than their counterparts with a relatively weak marketing culture (Webster, 1995). Building on the evidence of these research studies and the assertions of the relevant literature, the first hypothesis of this study is that:

H1: The marketing culture of a business is positively associated with its marketing effectiveness.

Although marketing effectiveness has been implicitly associated with company size (Canning, 1988) and geographic scope (i.e., local, regional, national and international) of the business (Block, 1989), its relationship with marketing culture has been found to be robust irrespective of firm size or geographic coverage (Webster, 1995). Hence, our second and third hypotheses are as follows:

H2: The marketing culture of a business is positively associated with its level of marketing effectiveness even when the likely influences of firm size are removed.

H3: The marketing culture of a business is positively associated with its marketing effectiveness even when the likely influences of geographical scope are removed.

Research Methodology

Data Collection

The primary purpose of the study was to investigate the association between marketing culture and marketing effectiveness among firms operating in the UK business environment. Hence, a cross-section of UK-based organisations was required to generate the data necessary to meet

our research objective. The sample was drawn from firms listed in the FAME CD-ROM database (see appendix 1). The screening criterion used was that organisations should have at least 500 employees. Based on this sample frame, 1000 firms were randomly selected from the manufacturing and service sectors. A limited pilot study was conducted by pre-testing the questionnaire on 30 marketing executives, after which minor revisions were made. A questionnaire and covering letter were mailed to a randomly selected employee in a middle-management position of 1000 firms, and after three weeks, a follow-up questionnaire was mailed to those who did not respond to the initial survey. The responses for the first and second mailings were 177 and 64 respectively. Due to missing data on some of the key constructs 6 questionnaires were deemed unusable, yielding 235 usable questionnaires - a response rate of 23.5 %. Twenty one firms declined to participate in the study because it was against company policy, while 7 questionnaires were returned as a result of incorrect addresses.

Research Instrument

Marketing Culture Scale: Appendix 2 presents the individual items for the marketing culture construct, which was adapted from Webster (1995). This comprised 6 dimensions, namely: service quality; interpersonal relationships; selling activities; organisation; internal communication; and, innovativeness. There were 34 items in total.

Marketing Effectiveness Construct: Appendix 3 shows the items for the marketing effectiveness scale, which was based on the measures of Kotler (1977) and Webster (1995). This consisted of 5 dimensions: customer philosophy; strategic orientation; integrated marketing organisation; adequate marketing information; and, operational efficiency. The total number of items was 31.

In order to ensure reliability and validity of the scales, in-depth interviews were undertaken with business executives concerning the meanings of marketing culture and marketing effectiveness prior to the pilot study. Finally, two items required respondents to provide an overall impression of the levels of marketing culture and marketing effectiveness.

Results

Reliability Analysis

A 7-point Likert scale was used for all items in the questionnaire to enhance reliability of the measures (Churchill & Peter, 1984). Tables 1 and 2 show the coefficient alpha and standardised Cronbach alpha results (Cronbach, 1970) for each dimension of marketing culture and marketing effectiveness respectively. The scores for most components are within the acceptable range and greater than the suggested cut-off level of 0.70 (Nunnally, 1978). It can be seen from Tables 1 and 2 that there is little difference between alpha and the standardised alpha (this compensates for effects of the number of scale items), thus, lending credence to reliability of the constructs. The exceptions here are integrated marketing organisation and marketing information, although this may be due to the fewer number of items in these dimensions. The high Cronbach alpha scores (> 0.7) for the overall scales of marketing culture and effectiveness reinforce the reliability of both instruments and the internal consistency of their respective items.

Dimension of Marketing Culture	No. of Items	Cronbach Alpha	Standardised Cronbach Alpha
1. Service Quality	8	.71	.70
2. Interpersonal Skill	5	.82	.83
3. Selling Task	7	.84	.85
4. Organisation	5	.77	.76
5. Innovativeness	3	.69	.70
6. Internal Communication	6	.84	.85
Total no. of items	34		

Dimensions of Marketing Effectiveness	No. of Items	Cronbach Alpha	Standardised Cronbach Alpha
1. Customer Philosophy	8	.73	.74
2. Marketing Information	3	.68	.60
3. Strategic Orientation	8	.76	.79
4. Operational Efficiency	9	.81	.83
5. Integrated Marketing Organisation	3	.66	.57
Total no. of items	31		

Content Validity

The validity of a construct concerns the extent to which it captures the concept it is intended to measure and its assessment is more of a qualitative approach than it is quantitative. Content validity depends on the degree to which the scale items represent a construct's domain (Parasuraman *et al*, 1988) and the rigour with which this domain is specified by the generated items that exhaust it (Churchill, 1979). The procedure followed by Webster (1990) is consistent with Churchill's (1979) suggestions for developing psychometric marketing scales.

Convergent Validity

In order to test for the convergent validity of the marketing culture and marketing effectiveness scales, respondents were asked to indicate their overall impression of the importance placed upon marketing culture in their organisation by circling a 7-point Likert type scale which ranged from 1 (very little importance) to 7 (a very high degree of importance), and the degree of marketing effectiveness from very low (1) to very high (7). A multiple regression analysis was performed by taking the *overall impression of the importance placed on marketing culture* measure as a dependent variable and the remaining marketing culture dimensions as independent variables. Table 3 shows that $Rsq = 0.34$ at a p level of 0.003. The significant coefficients associated with each component of marketing culture provide support for convergent validity of the construct. An identical analysis for the marketing effectiveness dimensions indicated convergent validity. Table 4 shows an Rsq of 0.29 with $p = 0.004$.

Table 3 - Dependent Variable: Overall Impression of Marketing Culture		
Independent Variables Marketing Culture	Coefficients	p value
1. Selling Task	.26	.031
2. Organisation	.16	.041
3. Internal Communication	.14	.022
4. Service Quality	.13	.052
5. Interpersonal Skill	.09	.031
6. Innovativeness	.04	.035

$R^2 = 0.34$; Adjusted $R^2 = 0.32$; Significance = 0.003.

Table 4 - Dependent Variable: Overall Impression of Marketing Effectiveness		
Independent Variables Marketing Effectiveness	Coefficients	p value
1. Customer Philosophy	.21	.041
2. Strategic Orientation	.19	.037
3. Marketing Information	.09	.050
4. Operational Efficiency	.16	.041
5. Integrated Marketing Organisation	.11	.041

$R^2 = 0.29$; Adjusted $R^2 = 0.22$; Significance = 0.004.

Marketing Effectiveness and Marketing Culture

A series of stepwise regressions were used to assess the link between marketing culture and marketing effectiveness. More precisely, the main purpose of this exercise was to test for significant influences of the marketing culture dimensions upon each element of marketing effectiveness, and subsequently, identify these effects in order of predicting power within the UK business environment. Further analyses were conducted to examine the impact of marketing culture upon marketing effectiveness before and after the potential influences of geographical coverage and firm size were eliminated.

Tables 5 through 9 report correlations among the predictor variables with respect to each of the five criterion dimensions. The relatively low scores suggest that there is no difficulty with multicollinearity. Tables 10 through 14 present findings of the five stepwise

regressions. None of the variables entered previously is removed from any equation as a consequence of including one more variable. The criterion set for removing and including items in the stepwise regression was $p = 0.1$ and $p = 0.05$. This further indicates that there is no multicollinearity.

	Increase in R ²	1	2	3	4	5	6
1. Service Quality	.46	1.00	.21	.31	.38	.28	.21
2. Selling Task	.09	-	1.00	.29	.32	.26	.21
3. Innovativeness	.05	-	-	1.00	.33	.27	.18
4. Internal Communication	.03	-	-	-	1.00	.31	.12
5. Organisation	.02	-	-	-	-	1.00	.22
6. Interpersonal Skills	.01	-	-	-	-	-	1.00

	Increase in R ²	1	2	3	4	5	6
1. Selling Task	.47	1.00	.27	.18	.32	.28	.41
2. Internal Communication	.09	-	1.00	.26	.28	.31	.48
3. Organisation	.05	-	-	1.00	.27	.33	.37
4. Interpersonal Skills	.03	-	-	-	1.00	.22	.21
5. Innovativeness	.02	-	-	-	-	1.00	.18
6. Service Quality	.01	-	-	-	-	-	1.00

	Increase in R ²	1	2	3	4	5	6
1. Selling Task	.35	1.00	.36	.29	.33	.34	.31
2. Service Quality	.07	-	1.00	.29	.28	.31	.38
3. Internal Communication	.04	-	-	1.00	.31	.27	.21
4. Innovativeness	.03	-	-	-	1.00	.31	.33
5. Interpersonal Skills	.02	-	-	-	-	1.00	.31
6. Organisation	.01	-	-	-	-	-	1.00

	Increase in						
	R ²	1	2	3	4	5	6
1. Selling Task	.44	1.00	.39	.29	.33	.31	.27
2. Organisation	.06	-	1.00	.31	.36	.31	.29
3. Internal Communication	.04	-	-	1.00	.28	.32	.21
4. Service Quality	.02	-	-	-	1.00	.23	.30
5. Interpersonal Skills	.01	-	-	-	-	1.00	.22
6. Innovativeness	.01	-	-	-	-	-	1.00

	Increase in						
	R ²	1	2	3	4	5	6
1. Selling Task	.28	1.00	.27	.28	.32	.31	.29
2. Organisation	.05	-	1.00	.27	.28	.31	.33
3. Interpersonal Skills	.04	-	-	1.00	.29	.28	.31
4. Service Quality	.03	-	-	-	1.00	.38	.41
5. Innovativeness	.02	-	-	-	-	1.00	.21
6. Internal Communication	.02	-	-	-	-	-	1.00

	T	Sig	R ²	Adj R ²	SE	F	Sig
1. Service Quality	7.68	.002	.46	.45	0.63	18.99	.050
2. Selling Task	4.77	.004	.55	.53	0.58	12.17	.032
3. Innovativeness	3.77	.081	.60	.59	0.57	10.04	.043
4. Internal Communication	1.05	.295	.63	.62	0.56	04.84	.071
5. Organisation	0.79	.437	.65	.63	0.53	03.29	.125
6. Interpersonal Skills	0.46	.656	.66	.64	0.51	02.09	.217

	T	Sig	R ²	Adj R ²	SE	F	Sig
1. Selling Task	7.86	.001	.47	.46	0.71	16.80	.012
2. Internal Communication	3.73	.002	.55	.54	0.65	13.57	.043
3. Organisation	3.06	.044	.60	.59	0.63	09.84	.050
4. Interpersonal Skills	1.22	.221	.63	.61	0.60	04.04	.091
5. Innovativeness	1.35	.175	.65	.63	0.57	02.47	.112
6. Service Quality	0.45	.656	.66	.65	0.55	01.89	.244

	T	Sig	R ²	Adj R ²	SE	F	Sig
1. Selling Task	6.21	.014	.35	.34	1.11	11.62	.022
2. Service Quality	5.44	.042	.42	.41	1.02	09.64	.034
3. Internal Communication	4.57	.021	.46	.44	0.98	07.41	.049
4. Innovativeness	0.82	.113	.49	.48	0.85	03.89	.125
5. Interpersonal Skills	0.65	.175	.51	.50	0.80	02.33	.244
6. Organisation	0.15	.217	.52	.51	0.79	02.21	.276

	T	Sig	R ²	Adj R ²	SE	F	Sig
1. Selling Task	7.43	.021	.44	.43	.67	13.23	.050
2. Organisation	6.85	.014	.50	.49	.64	07.53	.043
3. Internal Communication	4.75	.050	.54	.53	.61	06.16	.015
4. Service Quality	0.78	.442	.56	.54	.59	03.15	.197
5. Interpersonal Skill	0.55	.581	.57	.55	.54	02.80	.276
6. Innovativeness	0.18	.857	.58	.56	.51	01.97	.284

	T	Sig	R ²	Adj R ²	SE	F	Sig
1. Selling Task	5.35	.011	.28	.27	1.01	18.66	.012
2. Organisation	4.85	.024	.33	.31	0.98	07.65	.031
3. Interpersonal Skills	4.05	.035	.37	.36	0.98	06.96	.050
4. Service Quality	1.06	.295	.40	.38	0.97	03.27	.112
5. Innovativeness	0.43	.667	.42	.41	0.96	02.36	.131
6. Internal Communication	0.19	.856	.44	.42	0.94	01.05	.260

Dimensions of Marketing Effectiveness	Strength of Marketing Culture			Fmc	Fmc/s	Fmc/gs
	Very strong (n=63)	Strong (n=81)	Somewhat strong (n=91)			
Customer Philosophy	5.66	5.25	3.28	26.86*	11.87*	6.35*
Marketing Information	5.08	4.94	3.46	12.70*	5.60*	3.08**
Strategic Orientation	5.33	5.01	3.74	32.99*	15.18*	7.65*
Operation Efficiency	5.51	5.21	3.07	30.04*	16.47*	7.46*
Integrated Marketing Organisation	5.72	4.64	3.42	14.03*	7.16*	3.65**
Wilk's Lambda				6.25*	6.86*	3.41*

** $p \leq .01$

* $p \leq .05$

It can be seen from the *T* values in Tables 10 through 14 that, overall, variations in each facet of marketing effectiveness are explained by changes in the marketing culture variables. Moreover, the marketing culture components are positively associated with marketing effectiveness dimensions (Tables 5 - 9). On the whole, the significant *T* and *F* scores confirm the predicting potential of marketing culture. In fact, 66%, 66%, 52%, 58% and 44% of the overall variations in customer philosophy, strategic orientation, marketing information, operational efficiency and integrated marketing organisation, respectively, are predicted by variations in marketing culture (Tables 10 - 14). Phrased differently, each dimension of

marketing effectiveness is significantly explained by the degree of marketing culture. This finding lends support to our first hypothesis.

Notwithstanding the significant influence of a firm's marketing culture upon each marketing effectiveness component, the relative predicting power of individual marketing culture variables differs from one facet of effectiveness to another. In other words, the significance of an organisation's culture is contingent upon the specific dimension of effectiveness under consideration. Culture components such as innovation, internal communication, interpersonal relationships and organisation vary across many effectiveness variables. However, service quality exhibits the widest variation, being the strongest and weakest predictor, respectively, of customer philosophy and strategic orientation. At the other end of the spectrum, selling task is a consistently strong predictor of all the effectiveness dimensions. Thus, while the importance of the service quality component of marketing culture differs significantly depending upon the particular dimension of effectiveness, this is not so in the case of selling. An examination of the strengths of each independent variable in Tables 5 to 14 reveals that the significance attached to selling activity is the strongest predictor of marketing effectiveness. Next in sequence are service quality, internal communication, interpersonal relationships, organisation and innovation.

The second objective of this empirical research was to examine the impact of marketing culture upon marketing effectiveness while taking into account the potential influences of firm size and geographic coverage. Based on the level of importance placed on marketing culture a cluster analysis was employed to identify sub-groups of the sample. On a 7-point scale, the strengths of the definitive groups that emerged were as follows: businesses with a *somewhat* strong culture (2.80 to 3.90); businesses with a *strong* culture (3.91 to 5.00); and, businesses with a *very strong* culture (5.01 to 6.11). Group means and *F* tests of the five components are exhibited in Table 15. In the first column of *F* scores, *Fmc* reports the findings for the single factor design testing for the impact of marketing culture on its own. The second column, *Fmc/s* exhibits conditional *F* scores on the impact of marketing culture after accounting for firm size influences. The third column, *Fmc/gs* indicates *F* test values after adjusting for the impact of geographical coverage. In the single factor design for each of the marketing effectiveness components, significant differences were identified between organisations giving considerable,

high and modest attention to marketing culture. Thus, the significant impact of marketing culture on each effectiveness dimension is robust across firms with varying sizes and different geographical scope of operations. This finding lends credence to our second and third hypotheses.

Conclusions and Implications

The empirical findings from this study add to the growing body of literature on marketing orientation in different countries. This article has focused upon the potential linkages between the marketing culture and marketing effectiveness of firms operating in the UK. Although, the paper replicates Webster's (1995) study in the US, additional issues are examined. Specifically, the study is extended to cover both manufacturing and service organisations and an additional dimension of marketing effectiveness from Kotler's (1977) conceptualisation, namely integrated marketing organisation, is included in the analysis.

In accordance with the argument that culture is a very important determinant of organisational effectiveness in the marketplace, the evidence reported in this article indicates that there is a strong positive association between an organisation's type of marketing culture and its level of marketing effectiveness in the UK business environment. This relationship still holds regardless of firm size and its geographical coverage. Phrased differently, the number of employees in an organisation (e.g., 500 or 5000) and the geographical coverage of the business (e.g., local or global) do not significantly influence the effect of culture on effectiveness. Although Webster (1995) found this relationship to hold in US service firms, it appears to apply to large UK manufacturing and service firms as well.

It seems that firms which exhibit superior effectiveness are those that are also characterised by distinguishing cultural profiles. In other words, a distinct marketing culture may be a prerequisite for a particular degree of marketing effectiveness. A close examination of the items capturing each dimension of marketing culture reveals a central theme involving people (customers as well as employees) and quality. Thus, marketing effective firms tend to emphasise quality, service to the customer, personal empathy within the organisation, an outward orientation reflecting pride in the quality of product or service offering and the significance of individuals in achieving excellence (Norburn *et al*, 1990). Clearly, the

successful implementation of marketing strategy plans, segmentation and positioning strategies, integrated marketing tactics as well as marketing expenditure reviews, is largely contingent upon the existence and fostering of a strong marketing culture.

The strong link observed between marketing culture and effectiveness suggests that, in order to achieve marketing effectiveness, one needs to have an understanding of the impact of cultural issues. Marketing is recognised as an important function in the business operations and practices of firms which aspire to achieve superior performance in their competitive environments. In seeking to implement marketing programmes and plans successfully, training can serve as a useful change vehicle to sustain the development of an organisational culture with a marketing orientation. The hiring of new employees with a strong marketing focus would assist in expediting the rate of change, and moreover, a forging of links between staff and marketing functions appears to be an important antecedent to success.

The findings also suggest that a particular marketing culture may be desirable for a specific emphasis of marketing effectiveness. Notwithstanding the fact that each marketing culture component was a significant predictor of most marketing effectiveness dimensions, the results clearly demonstrate that the strength of each culture variable differs according to the effectiveness component. For example, service quality is the strongest and weakest predictor of customer philosophy and strategic orientation respectively. Consequently, organisations need to determine the marketing effectiveness dimensions which require greater attention and develop the appropriate strategies to achieve their objectives (Webster, 1995). For instance, an increased focus on customer philosophy, requires a culture that demonstrates keen interest in customers and employees in order to provide quality service, maintaining a focus on creative selling strategies and new account development. Moreover, such a culture should encourage both management and staff to be receptive to new ideas and change in order to implement the latest innovations pertinent to their industry. On the other hand, if priority is given to integrated marketing organisation, then the most appropriate culture is one that highlights the importance of establishing strong relationships with customers, innovative selling techniques, professionalism and organisation among all employees, and encourages the development of uninhibited interactions between management and employees.

Managerial Implications

Managers should emphasise personal empathy and promote an environment which facilitates a customer response of perceived quality. Developing the appropriate *state of mind* should improve an organisation's potential to execute strategies propounded in the marketing concept (Buzzell *et al*, 1975). The ability to manage and control the appropriate organisational culture required for the facilitation of a strong marketing culture is fundamental to marketing effectiveness. In an effort to enhance the likelihood of achieving effectiveness in the marketplace, senior executives cannot afford to neglect the human characteristics of their organisations. This issue becomes more crucial given that businesses which are marketing-effective tend to place more importance on performance measures such as market share, profit-to-sales ratios, personnel development, new product development and market development, than their relatively less marketing-effective counterparts (see Dunn *et al*, 1994). Obviously, neglecting these vital performance indicators leads to insufficient resource allocation, which in turn, stifles the possibility of implementing marketing plans and achieving marketing effectiveness.

An important issue which emerges from this study is that managers should give adequate attention to customers and employees. In marketing circles, the value of customers to a business cannot be overemphasised, but often, this overshadows the importance of employees to an organisation. To achieve effectiveness in the marketplace, it is absolutely crucial that managers recognise the significance of both groups and provide for their needs during the decision making process. Thus, an environment must be created and managed to promote a culture which facilitates the successful implementation of marketing-focused strategies. Internally, management need to demonstrate concern for staff and encourage them to strive for excellence, and externally, customers ought to be treated as *kings*.

Managers are encouraged to monitor shifts in employees' perceptions of marketing culture and marketing effectiveness on a periodic basis. This may be executed in the form of questionnaires aimed at assessing the importance their organisation places upon marketing culture. By seeking their perceptions on the current level of importance and ideal perceptions, the appropriate gaps can be identified so that corrective measures are taken to counteract potential problems relating to marketing effectiveness (Webster, 1995). For instance,

information collected from such surveys and subsequent evaluations may assist executives in introducing the appropriate changes and processes required to promote a shared market-oriented conception throughout the firm. Senior management's commitment to transformation should then be conveyed to all functional units and new policies implemented, in concert with due recognition and reward for efforts. This issue is crucial because, as firms strive to achieve superiority in their respective business environments, it will become increasingly important to have in-depth knowledge of how a proactive approach to marketing can facilitate the process of gaining a competitive advantage.

Implications for Researchers

From an academic perspective, a number of research avenues emerge from this study. Even though the evidence reported in this paper suggests that an organisation's marketing culture is associated with its marketing effectiveness, future studies could explore the possible relationships between marketing effectiveness and various performance measures. In this context, links between the different facets of marketing effectiveness and performance would be of great value to managers because it might provide an indication of which effectiveness components to emphasise if an organisation is more concerned about a particular dimension of performance. Furthermore, in order to understand the causal linkages between marketing culture and marketing effectiveness, it is vital that longitudinal studies are conducted to monitor, overtime, the changing characteristics and effects of marketing culture upon effectiveness. To provide a deeper understanding of the association between the two constructs, such studies should utilise techniques involving extensive, multiple interviews within industry classifications as well as in-depth analyses of cases. In response to Webster's (1995) call for replications of their US study in different cultural environments, this research examined the marketing culture-marketing effectiveness association in the UK. Perhaps other parts within the global marketplace where further replications could be attempted include continental Europe, the Pacific-rim and emerging economies in the developing world.

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APPENDICES

Appendix 1: FAME CD-ROM Database

FAME is a financial database on CD-ROM containing information on 270,000 major public and private British companies from the Jordan Watch and Jordan Survey database. Up to 5 years of detailed financial information and some descriptive details are also available on the database.

Appendix 2: Marketing Culture Dimension and Individual Items

Service Quality

- * The firm specifically defines what exceptional service is.
- * Top management is committed to providing exceptional service.
- * The firm systematically and regularly measures and monitors of employees' performance.
- * Employees focus on customer needs, desires and attitudes.
- * Employees believe that their behaviour reflects the firm's image.
- * Employees meet the firm's expectations.
- * The firm places emphasis on employees' communication skills.
- * Employees pay attention to detail in their work.

Interpersonal Relationships

- * The firm is considerate about employees' feelings.
- * Employees are treated as an important part of the firm.
- * Employees feel comfortable in giving opinions to top management.
- * Managers have an 'open' door policy.
- * Management interact with front-line employees.

Selling Task

- * The firm places emphasis on hiring the right people.
- * The firm provides skill-based and product knowledge training to front-line staff.
- * The firm encourages creative approaches to selling.
- * The firm gives recognition to high achievers in selling.
- * Employees enjoy pursuing new accounts.
- * The firm rewards employees better than its competitors with incentives to sell.
- * Employees pursue new business aggressively.

Organisation

- * Each employee is well organised.
- * Careful planning is a characteristic of every employee's daily routine.
- * Employees prioritise their work.
- * Employees' work area is well organised.
- * Each employee manages time well.

Internal Communication

- * The firm has an approved set of procedures and policies which is given to each employee.
- * Supervisors clearly state what their expectations are of others.
- * Each employee understands the mission and general objectives of the firm.
- * Management share financial information with all employees.
- * Front-line staff are encouraged to become involved in standard-setting.
- * The firm focuses efforts on training and motivating employees.

Innovativeness

- * All employees are receptive to ideas for change.
- * The firm keeps up with technological advances.
- * The firm is receptive to change.

Appendix 3: Marketing Effectiveness Dimension and Individual Items

Operational Efficiency

- * The firm achieves good sales.
- * The firm is a good community neighbour.
- * Management clearly defines and communicates the nature of the business.
- * Management is committed to marketing excellence.
- * The firm regularly and systematically seeks improvement.
- * Marketing thinking at the top is communicated and implemented down the line.
- * Marketing shows good capacity to react quickly and effectively to on-the-spot developments.
- * Management effectively manages marketing resources.
- * Marketing management works well with the management in other functional areas.

Customer Philosophy

- * Management encourages word-of-mouth communication.
- * The firm monitors customer satisfaction.
- * The firm effectively reaches its target market.
- * The firm is customer oriented.
- * The firm places importance on business image.
- * The firm recognises the importance of organising itself to serve the needs and wants of chosen markets.
- * The firm has different offerings and marketing plans for different segments of the market.
- * The firm adapts the whole marketing system in planning its business.

Strategic Orientation

- * The firm focuses on long-range growth.
- * The firm provides good quality service.
- * The firm places more importance on marketing than any other functional area.
- * The firm formulates an annual marketing plan.
- * The firm is well positioned relative to its competitors.
- * The firm engages in formal market planning.
- * Current marketing strategy is of high quality.
- * The firm utilises contingency thinking and planning.

Adequate Marketing Information

- * Efforts are expended to measure the cost-effectiveness of different marketing expenditures.
- * Regular marketing research studies of customers, buying influences, etc. are conducted.
- * Management understands the sales potential and profitability of different market segments/customers.

Integrated Marketing Organisation

- * Marketing management works well with functional management in research, manufacturing, purchasing, physical distribution and finance.
- * There is high level marketing integration and control of the major marketing functions.
- * The new product development process is well organised.

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17 December 1997

Dear Kwaku

Re: 'Marketing Culture and Performance in UK Service Firms', co-author Satyendra Singh

At long last I have been able to write formally accepting for publication your paper. Referees felt that your paper is a good contribution to knowledge and deserved publication.

A provisional publication date of January 1999, Volume 19 Number 1, and I attach our standard letter of acceptance.

A few things need your attention:

1. Please remove the Notes on Contributors;
2. Please introduce the purpose of the paper in the very first paragraph;
3. Page 6 - please set the hypothesis in a separate paragraph for emphasis;
4. Page 7 - please explain the random selection process a little more (was the population on the CD Rom database listed alphabetically or ranked by some size variable?)
5. Page 7 - what did you do about non-responses and were the firms which did not respond of significance in any way?
6. SIJ style, for example, the addresses of the authors at the bottom of the first page (a style sheet is attached for your use); please supply two hard copies of the final paper plus the paper on disk.

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With best wishes

Yours sincerely



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CHAPTER 3

Marketing Culture and Performance in UK Service Firms, 1999. Service Industries Journal, volume 19, number 1 (in press)

Abstract

In recent years there has been much emphasis on the need for service firms to develop an organisational culture which facilitates the successful implementation of marketing activities. This issue is considered critical for the delivery of services given the degree of interaction between the firm and its customers, and the proclamation by marketing academics and managers that a strong marketing culture will lead to customer satisfaction. This article reports on an empirical investigation into the relationship between UK service firms' marketing culture and performance. The results link marketing culture to customer satisfaction, customer retention and profitability. Implications of these findings for managers are subsequently discussed along with directions for future research.

Introduction

Over the last few years increasing attention has been given by both researchers and practitioners to how service organisations can cultivate a strong marketing culture. This growing interest is attributed to the recognition of the important role played by an organisation's culture in the services marketing function. There is a wide consensus among scholars that service marketing is different and generally more difficult to manage than product marketing due to the four unique features of services: intangibility (Lovelock, 1981); variability (Berry, 1980); inseparability of provision and consumption (Booms *et al*, 1981); and, perishability (Bateson, 1977). In an effort to provide managers with strategies to overcome the difficulties posed by these unique characteristics, many potential solutions have been proposed, some of which are quite commendable. However, despite the widespread acceptance of the marketing concept in principle, the development of management skills required to effect marketing plans still remains a problem area for many service firms. Research findings suggest that only a few service organisations really understand and carry out sophisticated marketing activities (Zeithaml *et al*, 1985). A reason which has been suggested for this failure is the existence of organisational barriers that hinder the successful implementation of marketing programmes and customer focused strategies. These obstacles include both organisational and

marketing functions and their related systems and policies (Webster, 1988).

Beyond this argument, however, is the contention that there is a more pertinent underlying issue associated with the poor performance of marketing activities by firms, namely, the human element involved in developing and implementing marketing strategies or the organisation's marketing culture (Dunn *et al*, 1994). Although many businesses have structures, procedures and systems to guide them in their marketing operations and practices, the human dimension has a significant influence on the successful execution of marketing plans, since their formulation and implementation depend on individuals in the firm (Piercy and Morgan, 1994). The appropriate culture required for marketing effectiveness is one that is built on a customer orientation which permeates the entire organisation. Hence, the development of a suitable environment is crucial for marketing success.

The concept of culture is a fundamental issue in service marketing due to the process involved in serving the customer. For most profit-making service organisations, business transactions bring employees and customers into close contact. Often, processes and procedures instituted for service provision have unintentional consequences because they are evident to the recipient, leaving no avenue for quality control between the employee's actions and consumer's purchase (Webster, 1993). Because the type of service or marketing culture an organisation has cannot be hidden from the customer, employee-customer interactions are more significant determinants of product quality in service organisations compared with goods firms. The need for a formal integration of organisational culture issues in services strategic market planning research is further stimulated by the growing global competition in today's business environment, and by the poor performance of many firms during periods of economic turbulence. In spite of the importance of culture to marketing management practices in service firms, there is relatively limited empirical research on its influence in a marketing context.

Consequently, this paper focuses on marketing culture among UK organisations. Specifically, the main purpose of this study is to contribute to the sparse literature base by exploring the nature of the association that exists between marketing culture and dimensions of performance in UK service firms. In the remaining sections we first provide a theoretical general perspective on the concept of organisational culture, marketing culture and present the

hypotheses. Then we discuss the research design and method. Next the research findings are presented and discussed. Finally, managerial relevance of the findings and future research directions are addressed.

Literature Review

The Significance of Culture

In spite of the scant empirical literature, the notion of culture has been the focus of conceptual research and debate for many years. Culture has been discussed widely in the scholarly and managerial literatures (Peters and Waterman, 1982; Schein, 1985) and many definitions and conceptualisations of the construct have been advanced. Some of the definitions provided in the relevant literature are as follows: a pattern of beliefs and expectations shared by organisation members (Schwartz and Davis, 1981, p.33); some underlying meaning, that persists over time, constraining people's perception, interpretation and behaviour (Jelinek *et al*, 1983, p.337). Following an extensive review of the management literature, Deshpande and Webster (1989) suggested that corporate culture refers to a pattern of shared values and beliefs that help individuals to understand how the organisation functions, thereby, providing them with norms for behaviour in the firm. Considered as the unwritten policies and guidelines, *the way we do things here* (Schneider and Rentsch, 1988), culture is regarded as an organisational variable which exerts a powerful impact upon the hidden forces within a firm, influencing behaviour and performance of individuals, possibly more than the formal procedures and systems.

A study of culture is relevant to organisations because it is regarded as a key determinant of success in the implementation of marketing strategies (Walker and Ruekert, 1987), and an important influence on sales effectiveness (Weitz *et al*, 1986), management effectiveness (Parasuraman and Deshpande, 1984) and marketing effectiveness (Norburn *et al*, 1988). Since marketing is regarded as the whole business from a customer's perspective, the marketing philosophy represents a corporate culture, a basic set of values and beliefs, which place the customer at the heart of the organisation's approach to strategies and operations (Deshpande and Webster, 1989). Furthermore, culture is a major factor that management might employ to shape the direction of their business (Smircich, 1983) and it impacts upon the pattern of search for information as well as its appraisal once obtained (Demirag and Tylecote,

1992). Culture also influences productivity, the manner in which a business adapts to forces in the business environment and new employee acclimatisation (Schneider and Reichers, 1983). These pervading consequences underline the need for service firms, with their peculiar attributes, to give primary consideration to the concept of culture in their business environments.

Marketing Culture in Service Organisations

Within the framework of corporate culture, marketing culture is characterised by the latent and formally decreed. From a marketing perspective, this represents a pattern of shared values and beliefs which enable employees to appreciate and 'feel' the marketing function, hence, providing them with norms for behaviour in the organisation as well as the significance attached to the marketing function (Webster, 1995). Basically, it is the way marketing *things* are done in a service firm. Marketing culture has been conceptualised as a multidimensional construct which is determined by the relevance attached to service quality, innovativeness, interpersonal relationships, the selling activity, internal communications and organisation (Webster, 1993). Therefore, an aspect of marketing culture is one which focuses on implementing the latest innovation pertinent to that specific market. The workforce as well as customers should be able to perceive this culture both directly and indirectly (eg. by observing the firm's consistent drive to be up to date with technological developments, the fostering of new ideas, its efforts to create new products and the recognition given for successful technological breakthroughs). Another dimension of marketing culture may be an emphasis on efficient organisation among employees irrespective of position within the business. This may be noticed from the prominence given to proper management of time, professional appearance and conduct, well organised work areas, etc. Others may attach more significance to service quality, hence, accentuating the provision of exceptional service, employee behaviour and image of the firm, customer needs and desires, etc. Accordingly, marketing culture will depend on the degree of importance attached to these different variables.

Hypothesis

Based on a study of US firms, Webster (1990) found that there were significant differences between the perceived importance of marketing culture among service organisations and product manufacturers. The results suggest that, despite the relative importance of several

dimensions of marketing culture to both types of businesses, service firms tend to place more emphasis upon marketing culture. This reinforces the widely recognised notion that, due to the inseparability of provision and receipt of services, it is important for service firms to pay close attention to marketing activities.

Considering the importance of marketing to service organisations, an essential research issue that needs addressing is whether there is a significant association between marketing culture and performance. The achievement of consistent superior performance is largely dependent upon the ability of a firm to develop a sustainable competitive edge and it is considered that marketing culture is the organisational variable that most effectively and efficiently creates the essential behaviours for the development of superior value for customers (Narver and Slater, 1990). The development of a strong marketing culture should make it possible for a firm to implement the marketing concept effectively. This process provides a unifying focus for the efforts of employees and departments within the firm, thus, resulting in superior organisational performance (e.g., Kohli and Jaworski, 1990). By definition marketing is regarded as the process of identifying and satisfying customer needs - it is argued that a strong marketing culture is positively associated with greater customer satisfaction (Kotler, 1996) and that customer satisfaction is largely determined by marketing orientation (McCullough *et al*, 1986). Recent studies affirm that customer satisfaction leads to customer retention, which in turn, results in increased profitability (Storbacka *et al*, 1994; Hallowell, 1996). In services marketing, success is largely dependent upon the combined outcome of internal marketing, interactive marketing and external marketing. The term interactive marketing was coined by Gronroos (1981) to express the significance of employee-customer or buyer-seller interactions in services transactions. According to Gronroos, interactive marketing is responsible for perceived service quality, customer satisfaction and customer retention. All the above suggestions are consistent with the tenets of the service-profit chain which was developed from analyses of successful service organisations in the US (see Heskett *et al*, 1994). Thus, service firms have to make a concerted effort to satisfy the needs of their customers and retain them in order to be profitable. Within a marketing context, it is suggested that all crucial decisions be viewed as investments, and hence, efforts to develop a sound marketing culture via improvements in service quality, internal communications, selling activities, innovation etc., should be based on an assessment of the possible returns (Webster,

1995). The preceding discussion leads us to hypothesise that:

There is a positive relationship between the importance placed upon the marketing culture of a service firm and the following performance measures: customer satisfaction; customer retention; and, profitability (return on investment).

Research Design

Data Collection

The primary purpose of the study was to investigate the association between marketing culture and dimensions of performance in the UK service sector. Hence, a cross-section of service organisations was required to generate the data necessary to meet the research objective. The sample was drawn from UK-based service firms listed in the FAME CD-ROM database (see Appendix 1). The screening criterion used was that organisations should have at least 500 employees. Based on a stratified random sampling method 500 firms were selected from the banking (SIC 6021, n = 75), hotel (SIC 7011, n = 150), tourism (SIC 4725, n= 175) and airline (SIC 4512, n = 100) industries. These four sectors were chosen because of their degree of intangibility and common use (cf. Webster, 1993). A limited pilot study was conducted by pre-testing the questionnaire on 20 marketing executives, after which minor revisions were made. A questionnaire and covering letter were mailed to 250 directors and 250 regional managers of 500 service firms, and after three weeks, a follow-up questionnaire was mailed to those who did not respond to the initial survey. The responses for the first and second mailings were 85 and 37 respectively. To assess non-response bias the 'last wave' method was used (Filion, 1975; 1976). This method projects the trend in responses across the first two waves. The 'last respondent' method assumes that non-respondents are like the projected last respondent in the second wave. Non-respondents were assumed to respond as they did in the second wave. A series of Chi-square tests indicated no significant differences between first wave respondents and the second wave respondents on any of the measures analysed (eg. firm size ie. turnover χ^2 0.82, $p > 0.05$, geographical position χ^2 0.51, $p > 0.05$, firm size ie. no of employees χ^2 0.98, $p > 0.05$). These suggest that our survey sample did not suffer from any non-response bias. Due to missing data on some of the key constructs 4 questionnaires were deemed unusable, yielding 118 usable questionnaires - a response rate of 23.6%. Eleven firms declined to participate in the study because it was against company policy, while 3 questionnaires were returned as a result of incorrect addresses.

Research Instrument

Appendix 2 presents the individual scale items for the marketing culture construct. This comprised 6 dimensions and a total of 34 items. Due to the reluctance of private firms to divulge confidential information on objective performance measures and the difficulty in obtaining such data from documentary sources, a subjective approach was adopted in assessing performance. Dess and Robinson (1984) contend that the accuracy of objective data in explaining variation in performance between organisations is limited. Moreover, it has been found that informant data exhibit less method variance than archival data; subjective evaluations have a strong correlation with objective measures of performance (Venkatraman and Ramanujam, 1987). Subjective methods are also regarded as a reliable means of assessing performance (Pearce *et al*, 1987). Performance was assessed using one financial dimension (ROI) and two customer-based measures, namely customer satisfaction and customer retention. The evaluation was based upon executives' perceptions of business performance relative to those of their major direct competitors in the last 5 years. Finally, one item required respondents to provide an overall impression of the level of importance placed upon marketing culture in their firms on a 7-point scale, ranging from 1 (very little importance) to 7 (a very high degree of importance).

Analysis and Results

Reliability Analysis

A 7-point Likert scale was used for all items in the questionnaire to enhance reliability of the measures (Churchill & Peter, 1984). Table 1 shows the coefficient alpha scores obtained for each dimension of marketing culture (Cronbach, 1970). These are all within the acceptable range and greater than the suggested cut-off level of 0.70 (Nunnally, 1978). Moreover, it can be seen from Table 1 that there is little difference between alpha and the standardised alpha (which compensates for effects of the number of scale items), thus, providing support for the reliability of the marketing culture instrument. The high Cronbach alpha (> 0.7) for the overall construct suggests that the scale is likely to be reliable with regards to the internal consistency of the items.

Content Validity

The validity of a construct concerns the extent to which it captures the concept it is intended to measure and its assessment is more of a qualitative approach than it is quantitative. Content validity depends on the degree to which the scale items represent a construct's domain (Parasuraman *et al*, 1988) and the rigour with which this domain is specified by the generated items that exhaust it (Churchill, 1979). The procedure followed by Webster (1990) is consistent with Churchill's (1979) suggestions for developing psychometric marketing scales.

Convergent Validity

In order to test for the convergent validity of the marketing culture scale respondents were asked to indicate their overall impression of the importance placed upon marketing culture in their organisation by circling a 7-point Likert type scale which ranged from 1 (very little importance) to 7 (a very high degree of importance). A multiple regression analysis was performed by taking the *overall impression of the importance placed on marketing culture* measure as a dependent variable and the remaining marketing culture dimensions as independent variables. Table 2 shows that $Rsq = 0.38$ and is significant at $p < 0.001$ level. The significant coefficients associated with each dimension of marketing culture provides support for convergent validity of the construct.

Dimension of Marketing Culture	No. of Items	Cronbach Alpha	Standardised Cronbach Alpha
1. Service Quality	8	.890	.889
2. Interpersonal Skill	5	.886	.890
3. Selling Task	7	.825	.873
4. Organisation	5	.914	.925
5. Innovation	3	.773	.785
6. Internal Communication	6	.812	.819

Table 2 - Dependent Variable: Overall Impression of Marketing Culture

Independent Variables	Coefficients	p value
1. Service quality	.28	.03
2. Innovation	.18	.03
3. Interpersonal relations	.11	.02
4. Internal communication	.17	.04
5. Selling task	.09	.04
6. Organisation	.10	.03

R² = .380

Adjusted R² = .370

Significance = .001

Marketing Culture and Performance

Tables 3 through 8 indicate the stepwise multiple regression analysis results of the variables representing marketing culture (selling task, interpersonal communications, interpersonal relationships, service quality, innovation and organisation). The low correlation coefficient scores (< 0.5) among the independent variables (see Tables 3, 4 and 5) suggest that multicollinearity is not a problem. The extent to which each dimension of marketing culture contributes to the explanation of the three performance indicators is presented in Tables 3, 4 and 5. The stepwise multiple regression coefficients and standard errors of estimate are given in Tables 6, 7 and 8. Stepwise regression equations were developed using the best predictor of each performance dimension. First, a regression analysis was conducted to determine which variables should be removed after entry, in accordance with the preset removal criteria ($P_{out} = 0.1$ and $P_{in} = 0.05$). Next, items which were not in the equation were examined for entry, and thereafter, those already included were examined for removal. Variables were then removed until none remained that met the removal criteria. This method exactly pinpointed the components of marketing culture which had the strongest correlation with each performance dimension in order of predicting power.

Marketing Culture and Customer Satisfaction

Regression of the marketing culture dimensions on overall perceived customer satisfaction is presented in Table 3. The evidence suggests that, apart from the selling task (see Table 6), a

significant and positive relationship exists between all marketing culture dimensions and customer satisfaction. Service quality makes the highest significant contribution to the explanation of variance in customer satisfaction. Next in sequence are innovation, interpersonal skills, internal communication and organisation. In other words, managers who lay greater emphasis on the dimensions of marketing culture, perceive their organisations to be providing relatively higher levels of customer satisfaction than their competitors. Although selling does not manifest a significant association with customer satisfaction, the relationship is positive. Overall, 49% of the total variation in customer satisfaction is explained by marketing culture (Table 6).

Marketing Culture and Customer Retention

The regression analysis of marketing culture components on perceived customer retention is reported in Table 4. The results reveal that there is a significant and positive relationship in all cases, with the exception of selling (see Table 7). Innovation contributes most to customer retention, followed by service quality, organisation skills, internal communication and interpersonal skills in that order. Phrased differently, it appears that executives who maintain a greater focus on the marketing culture variables, perceive their organisations to be achieving relatively higher levels of customer retention than their competitors. Again, in spite of the non-significant relationship, selling still has a positive association with customer retention. On the whole, marketing culture is responsible for as much as 46% of the difference in customer retention levels among the service firms investigated (Table 7).

Marketing Culture and ROI

Tables 5 and 8 indicate that, with the exception of organisation, all marketing culture dimensions have a significant and positive association with ROI. Service quality exerts the most significant impact upon the profitability of a service firm. This is followed in sequence by interpersonal skills, innovation, internal communication and selling. In other words, it seems that there is a significant link between the importance placed on marketing culture and the profitability of a service business. Thus, managers who give greater attention to the dimensions of marketing culture perceive their organisations to be relatively more profitable than their competitors. Notwithstanding the non-significant relationship between the organisation dimension and ROI, the link is still positive. In total, marketing culture explains

as much as 53% of the variance in business profitability, quite a high figure given the other variables that are not accounted for in the regression equation (Table 8).

Table 3 - Correlation Coefficients and Rsq Contributions to Customer Satisfaction							
	Increase in R²	1	2	3	4	5	6
1. Service quality	.31	1.00	.36	.43	.39	.38	.41
2. Innovation	.07	-	1.00	.33	.32	.48	.42
3. Interpersonal skills	.05	-	-	1.00	.43	.41	.44
4. Internal communication	.03	-	-	-	1.00	.32	.38
5. Organisation	.02	-	-	-	-	1.00	.28
6. Selling task	.01	-	-	-	-	-	1.00

Table 4 - Correlation Coefficients and Rsq Contributions to Customer Retention							
	Increase in R²	1	2	3	4	5	6
1. Innovation	.30	1.00	.39	.41	.29	.38	.28
2. Service quality	.05	-	1.00	.39	.37	.31	.28
3. Organisation	.04	-	-	1.00	.22	.21	.31
4. Internal communication	.04	-	-	-	1.00	.21	.28
5. Interpersonal skills	.02	-	-	-	-	1.00	.18
6. Selling task	.01	-	-	-	-	-	1

Table 5 - Correlations Coefficients and Rsq Contributions to ROI

	Increase in R ²	1	2	3	4	5	6
1. Service quality	.28	1.00	.29	.32	.48	.33	.38
2. Interpersonal skills	.09	-	1.00	.31	.28	.33	.26
3. Innovation	.08	-	-	1.00	.35	.31	.23
4. Internal communication	.05	-	-	-	1.00	.33	.35
5. Selling task	.02	-	-	-	-	1.00	.29
6. Organisation	.01	-	-	-	-	-	1.00

Table 6 - Stepwise Regression: Marketing Culture v Customer Satisfaction

Dimension of Marketing Culture	Multiple R	R ²	SE	SIG P
1. Service quality	.39	.31	0.98	.003
2. Innovation	.42	.38	0.97	.004
3. Interpersonal skills	.47	.43	0.97	.009
4. Internal communication	.53	.46	0.96	.025
5. Organisation	.55	.48	0.94	.047
6. Selling task	.56	.49	0.88	.176

Table 7 - Stepwise Regression: Marketing Culture v Customer Retention

Dimension of Marketing Culture	Multiple R	R ²	SE	SIG P
1. Innovation	.37	.30	1.19	.001
2. Service quality	.40	.35	0.98	.002
3. Organisation	.41	.39	0.91	.005
4. Internal communication	.42	.43	0.88	.011
5. Interpersonal skills	.43	.45	0.83	.023
6. Selling task	.43	.46	0.74	.164

Table 8 - Stepwise Regression: Marketing Culture v ROI

Dimension of Marketing Culture	Multiple R	R ²	SE	SIG P
1. Service quality	.47	.28	1.52	.004
2. Interpersonal skills	.51	.37	0.94	.005
3. Innovation	.56	.45	0.87	.006
4. Internal communication	.61	.50	0.82	.010
5. Selling task	.64	.52	0.76	.019
6. Organisation	.66	.53	0.75	.361

Discussion

The research hypothesis is supported by the results of this study. In general, there is a strong relationship between the importance placed upon the marketing culture of a service firm and its performance. Each marketing culture component contributes to, at least, one of the three performance measures examined, although their relative explanatory influences vary according to the specific performance dimension. It is worthwhile to note that the selling activity is not perceived as a significant contributor to measures of customer satisfaction and retention.

Service quality and innovation are the most important predictors of the customer-based performance measures (satisfaction and retention), whereas service quality and interpersonal skills are the critical dimensions for the financial-based performance measure (ROI). Hence, the emphasis placed upon each dimension of marketing culture will be determined by the performance objective set by the firm. However, it is clear from the findings that service quality is of supreme importance in a service context. A service firm which desires to retain its customers should pay more attention to service quality instead of seeking to sell what it can produce, irrespective of the needs of its selected target markets. Though the selling activity can increase profitability in the short term, this may be achieved at the expense of keeping customers, leading to the erosion of a solid customer base through the loss of loyal customers to competitors. In this context, the consequence of a sound marketing culture is perceived as a strong influence on customers' attitudes and behaviour. The fine tuning of the marketing culture dimensions and a well executed implementation strategy produces satisfied customers who spread the good word to other potential customers and keep coming back to the firm. This

finding lends support to Kotler's (1997) sentiments that a strong marketing culture is likely to lead to increased customer satisfaction and customer retention.

Comparing our conclusions with Webster's (1993) US results, there are consistencies as well as differences in the findings regarding the marketing culture-profitability (ROI) relationship. For instance, in both studies, service quality and interpersonal skills are the leading contributors to ROI, whereas selling and organisation are the least predictors of the same performance measure. Thus, service quality appears to be the area of greatest emphasis whereas selling seemingly receives relatively less attention in services marketing when ROI is the measure of company performance. However, 94% of the total variation in profitability is explained by marketing culture in Webster's (1993) study, compared with our figure of 53%. This implies that a strong marketing culture is of paramount significance in achieving high levels of profitability in the sample of firms surveyed in the US.

Clearly, there is an underlying consistency in the study findings for all the three performance measures utilised. These results reinforce the arguments advanced by both service management and marketing researchers that there is a link between customer satisfaction, customer retention and profitability. Proponents of the service-profit chain argue that profitability and growth are stimulated mainly by customer retention. Retention is a direct result of customer satisfaction and satisfaction is primarily influenced by the value of services provided to customers (Innis and LaLonde, 1994). Customer satisfaction is the result of the purchaser's perception of service quality received in a transaction or relationship relative to the value expected from competitors (Zeithaml *et al*, 1990). Satisfaction has been found to lead to customer retention which involves continuous purchasing from the same source, enhanced scope of relationship and word of mouth recommendation. The consequences such as increased revenues, reduced customer acquisition costs and lower costs of serving repeat purchasers, lead to enhanced profitability (Yi, 1990). This assertion is confirmed by Reichheld and Sasser (1990) who found that a 5% growth in customer retention can improve profit levels from 25% to 85%, and reinforced by Reichheld (1996).

Service quality is perceived as the key factor underlying the link between all the three performance measures and this is evident in the marketing culture dimensions for all our

results. Indeed, several studies have identified a significant relationship between service quality and performance. Findings of these studies demonstrate that firms offering superior service attained higher than normal market share (Buzzell and Gale, 1987), that avenues through which service quality impacts upon profits include enhanced market share and premium prices (Gummesson, 1993) and that compared to their competitors, organisations in the top ten quintile of relative service quality on average achieve an 8% higher price (Gale, 1992). Other consequences of superior service which have been found include: recommending the firm or service to others (Parasuraman *et al*, 1991); talking favourably about the organisation to others (Boulding *et al*, 1993); paying a premium price; and, customer retention (Rust and Zahorik, 1993; LaBarbera and Mazursky, 1983). Thus, customers will prefer such a firm to the competition, continue to purchase from it and expand business with it in the future (Zeithaml *et al*, 1996).

Innovativeness features as a very important determinant of the performance measures used. Although its relative influence on ROI may be limited in the short term where high research and development costs are incurred, it is expected that over a longer period financial benefits will accrue to the firm. Innovation is regarded as a fundamental function in the creation and retention of customers (Deshpande *et al*, 1993) and is believed to be inextricably linked to marketing (Drucker, 1954). Businesses have been encouraged to be innovative because of its inherent association with new product or service development (Daft, 1978; Damanpour and Evan, 1984) and the relationship between product development and organisational success (Nicholson *et al*, 1990). Furthermore, it has been noted that innovative businesses do achieve a competitive advantage which enables them not only to survive, but also to grow (Gronhaug and Kaufmann, 1988). Our findings lend support to the above arguments, and thus, managers of service businesses would be encouraged to give adequate attention to the role of innovation as a component of their firms' marketing culture.

Interpersonal relationships also play an important role in determining the performance of service organisations because of the significance of people in offering services. Superior value can be provided to customers by employees who are satisfied. This satisfaction stems from *first-class* support services and policies that facilitate the delivery of results to customers. Satisfied, loyal and productive employees are able to create value which, in turn, leads to

customer satisfaction. Customer satisfaction then results in loyal customers who purchase on a repeat basis, and this produces profitability and growth (Hallowell, 1996).

Internal communication also appears to play a significant role in determining the success of a service organisation. Effective communication of the firm's mission and general objectives, coupled with the availability of approved sets of policies and procedures, ensures that there is a shared vision among departments and a likelihood of a successful marketing strategy implementation (Hart and Banbury, 1994). The clear communication of management's expectations and the sharing of information results in effective coordination within and across functions, while a focus on training and motivation of employees is vital to employee satisfaction and performance (Heskett *et al*, 1994).

The selling activity does not seem to influence customer satisfaction and customer retention. Despite its impact on a service firm's profitability, the effect is limited when compared with marketing culture dimensions such as service quality, interpersonal relationships and innovation. Perhaps selling tends to concentrate on sales volume, short-term strategies, individual customers and field work rather than profit planning, long-term trends, opportunities or threats, customer types or segment differences and good systems for market analysis, planning and control. Thus, short-term gains are reaped at the expense of superior long-run performance.

The organisation variable in the marketing culture construct also has minimal impact upon all the performance dimensions assessed. This may be due the limited influence of a two-way human exchange component in the operationalisation of this dimension. However, it will be interesting to see how organisation affects resource utilisation performance measures such as employee productivity and efficiency.

Conclusions and Implications

This study has contributed to the existing literature in a number of ways. First, from an empirical viewpoint, it has investigated the attributes of marketing culture through a study of large service organisations in the UK business environment. Second, from a theoretical standpoint, the association between firms' perceptions of the importance placed upon

marketing culture and service performance has been investigated. Considering the scant empirical evidence in the literature, this issue is of major significance. Third, from a methodological perspective, this study has emphasised both financial and customer-based performance measures which are critical in service industries.

It was originally argued that service organisations which place more importance on a marketing culture would exhibit higher levels of performance than those with a relatively lower emphasis on marketing culture. To a large extent, this contention is upheld by our findings. In line with our hypothesis, it seems that service firms which give greater attention to the development of organisational variables such as service quality, innovation, interpersonal relationships, internal communication, organisation and selling generally exhibit relatively higher levels of performance in terms of customer satisfaction, customer retention and profitability.

A number of implications emanate from this study. Principally, it is held that service businesses have a propensity to adopt a strong marketing culture because such an approach provides them with performance benefits which cannot be realised otherwise (Webster, 1990). Furthermore, from a conventional wisdom viewpoint, if it is acknowledged that a strong marketing culture may result in higher levels of performance (cf. Webster, 1993), it is essential that managers understand the constituents of marketing culture. Despite the fact that variations in the performance measures utilised are not wholly explained by marketing culture, particular marketing effectiveness variables such as customer philosophy, generating and disseminating marketing information, operational efficiency and strategic orientation, are given added emphasis when an organisation establishes effective practices in the areas of service quality, innovation, interpersonal relations, internal communication, selling and work organisation (Webster, 1995).

From a scholarly point of view, several areas of future research arise from this study. Although our findings indicate that marketing culture is positively associated with financial and customer-based performance measures, subsequent studies could examine the relationships between marketing culture and other service performance measures (Fitzgerald *et al*, 1991) such as competitiveness (eg. sales growth, relative market share and position), resource

utilisation (eg. productivity, efficiency) and flexibility (eg. volume, delivery speed). Moreover, to enable both researchers and managers to understand the causal association between marketing culture and various dimensions of organisational effectiveness, an important avenue of future research may be to conduct a longitudinal study exploring the implications of varying the degree or influence of marketing culture operating within firms. In order to identify industry specific effects, replications with single industries would be desirable. Finally, cross-cultural studies examining the association investigated in this research would provide added information on the particular marketing culture dimensions that are prevalent in different cultures, thereby shedding further light on the external validity of our findings.

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APPENDICES

Appendix 1: FAME CD-ROM Database

FAME is a financial database on CD-ROM containing information on 270,000 major public and private British companies from the Jordan Watch and Jordan Survey database. Up to 5 years of detailed financial information and some descriptive details are also available on the database.

Appendix 2: Marketing Culture Dimension and Individual Items

Service Quality

- * Firm specifically defines what exceptional service is.
- * Top management is committed to providing exceptional service.
- * Firm systematically and regularly measures and monitors employees' performance.
- * Employees focus on customer needs, desires and attitudes.
- * Employees believe that their behaviour reflects the firm's image.
- * Employees meet the firm's expectations.
- * Firm places emphasis on employees' communication skills.
- * Employees give attention to detail in their work.

Interpersonal Relationships

- * Firm is considerate about employees' feelings.
- * Employees are treated as an important part of the firm.
- * Employees feel comfortable in giving opinions to top management.
- * Managers have an 'open' door policy.
- * Management interact with front-line employees.

Selling Task

- * Firm places emphasis on hiring the right people.
- * Firm provides skill-based and product knowledge training to front-line staff.
- * Firm encourages creative approaches to selling.
- * Firm gives recognition to high achievers in selling.
- * Employees enjoy pursuing new accounts.
- * Firm rewards employees better than its competitors with incentives to sell.
- * Employees pursue new business aggressively.

Organisation

- * Each employee is well organised.
- * Careful planning is a characteristic of every employee's daily routine.
- * Employees prioritise their work.
- * Employees' work area is well organised.
- * Each employee manages time well.

Internal Communication

- * Firm has an approved set of procedures and policies which is given to each employee.
- * Supervisors clearly state what their expectations are of others.
- * Each employee understands the mission and general objectives of the firm.
- * Management share financial information with all employees.
- * Front-line staff are encouraged to become involved in standard-setting.
- * The firm focuses efforts on training and motivating employees.

Innovativeness

- * All employees are receptive to ideas for change.
- * Firm keeps up with technological advances.
- * Firm is receptive to change.

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18 December 1997

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Dear Kwaku

Re: Marketing Effectiveness and Customer Retentions in the Service Sector

I have now received feedback from our referees. Their response has been positive. Therefore, The Service Industries Journal would like to accept your paper on the basis that the paper is returned conforming to the points made below.

Please would you:

- (i) ensure your references conform to SIJ style. I would particularly draw your attention to the fact that citations should be given in square brackets in the text: thus, [Smith, 1997]. Please ensure that Deming on page one is given an appropriate citation.
- (ii) ensure tables and figures are in camera ready form.
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Should you require further assistance my direct line is 01202 595579 and my email address is nalexand@bournemouth.ac.uk. Please do not hesitate to contact me if you would like to discuss any of the points noted above.

I look forward to receiving your amended text.

Best wishes

A handwritten signature in black ink, appearing to read 'Nicholas Alexander', followed by a long horizontal flourish.

Nicholas Alexander
Editor

CHAPTER 4

Marketing Effectiveness and Customer Retention in the Service Sector, 1999, Service Industries Journal, volume 19, number 3 (in press)

Abstract

Recent years have witnessed a growth in the number of studies relating to service organisations. This steady stream of literature could be attributed to the continuous expansion of the service sector and its increasing contribution to the advancement of many economies. In this context, issues associated with marketing and performance outcomes which managers can influence directly, have received a great deal of attention. This research focuses on an empirical investigation of the relationship between marketing effectiveness and customer retention performance in an attempt to contribute to the growing body of conceptual and empirical knowledge on the links between marketing and performance among service firms. Drawing on our results which indicate a significant and positive association between marketing effectiveness and customer retention, implications of the findings for service firm managers as well as future research directions are subsequently discussed.

Introduction

In the last two decades, marketing academics have examined a wide range of issues relating to service marketing as illustrated in recent studies by Swartz *et al* [1992] and Fisk *et al* [1993]. The ability to perform marketing activities effectively remains an important issue among executives of service organisations due to the increasing role of marketing in the implementation of successful business strategies. Marketing effectiveness has attracted considerable interest in the literature because of its purported linkage with organisational outcomes such as long-term growth, improved customer satisfaction, a competitive advantage and a high level of marketing orientation [Dunn *et al*, 1994; Norburn *et al*, 1995; Webster, 1995; Appiah-Adu and Singh, 1997]. Since customer philosophy is one component of marketing effectiveness, it implies that the degree of marketing effectiveness achieved by a business would be of great significance to a service organisation as the provision and receipt of services brings the employee and recipient physically and psychologically close [Schneider, 1987].

A related subject which has received extensive coverage in the marketing and services literature is the concept of customer retention. The interest in customer retention has been fuelled, firstly, by the recognition that customer satisfaction, which is considered as a pivotal element of the marketing philosophy, cannot on its own produce life time customers. As Deming [1986] argues, profit comes from repeat customers - those who boast about the product or service. Secondly, it has been established that customer retention is a key contributor to revenue growth, reduced costs and increased profits. Again for service firms which usually have closer relationships with customers compared with manufacturing organisations, the ability to retain customers is critical for superior organisational performance.

Notwithstanding the significance of marketing effectiveness and customer retention to service firms, a review of the relevant literature reveals that the former concept has often been investigated in terms of its relationship with marketing culture [Webster, 1995], corporate values [Norburn *et al*, 1995] and financial performance [Ghosh *et al*, 1994]. On the other hand, studies on customer retention have generally focused on its links with service quality, service recovery, customer satisfaction, sales revenue and profitability [Hart *et al*, 1990; Rust and Zahorik, 1993; Jones and Sasser, 1995]. While these findings are important to service managers because of their importance to the overall prosperity of businesses, an examination of the impact of marketing effectiveness and customer retention is also essential since retention has been found to probably the most important determinant of profitability among service firms. Hence, the current study is based on an investigation into the influence of marketing effectiveness on customer retention in the UK service industry. Service industries are becoming more competitive, meaning that marketing effectiveness and customer retention represent formidable challenges to service firms.

The overall objective of this research effort is to build on the existing empirical and conceptual evidence on marketing effectiveness and customer retention, by providing new insights from an empirical perspective on a link between the two concepts. This introduction is followed by five sections. First, the concepts of marketing effectiveness and customer retention are discussed. Then arguments are advanced for our hypothesis based on the relevant literature. Next, the research method and results are presented. The penultimate section discusses the study findings and its implications for managers. Finally, limitations of the study

and directions for future research are highlighted.

Literature Review

Marketing Effectiveness and Service Firms

According to Norburn *et al* [1990], a marketing effective firm is one which exhibits a close association with its customers, possesses a uniform set of values and is characterised by an external orientation to its marketplace. In such firms, interactions with customers are characterised by a focus on service orientation, an emphasis on innovation and quality as well as a viewpoint of the business from the customer's standpoint. Moreover, the set of values of these organisations are distinct and identifiable, with a focus on being *the best* and on the importance of people. Finally, the external orientation values the marketing environment as a significant influence on corporate action.

Findings from studies on the concept of marketing effectiveness in different countries indicate that, on the whole, organisational performance is higher in marketing effective firms than their marketing ineffective competitors [Hooley and Lynch, 1985; Kiel *et al*, 1986; Norburn *et al*, 1990; Ghosh *et al*, 1994; Dunn *et al*, 1994]. These findings reinforce Peters and Waterman's [1982] conclusions that two major organisational factors which influence a firm's performance are effective marketing practices and customer orientation. Hence, a great deal of attention has focused on the need for businesses to improve their degree of marketing effectiveness, an issue which is considered critical for service firms in particular [Webster, 1995].

As a construct, the characteristics of marketing effectiveness are multifaceted and only few efforts have been made to conceptualise it. The most renowned and frequently utilised construct is Kotler's [1977] conceptualisation. According to Kotler, an organisation's marketing effectiveness comprises five dimensions. These are customer philosophy, integrated marketing organisation, adequate marketing information, strategic orientation and operational efficiency. First, it is essential to understand the significance of analysing the market, recognising its numerous opportunities, selecting the most attractive segments to operate in and ensuring that superior value is offered to satisfy customers' needs and wants. Next, successful marketing calls for the organisation to be well staffed to enable it to undertake marketing

analysis, planning and implementation. Further, adequate information must be at the disposal of managers for the purposes of planning and effective resource allocation to different markets, products and territories. Effectiveness is also determined by the ability of managers to develop fruitful strategies from marketing philosophy, organisation and information resources. Finally, marketing effectiveness is contingent upon the ability to implement marketing plans at different levels of the firm. It is essential to point out that, firstly, marketing effectiveness differs from profitability, and secondly, they represent two distinct concepts. The rationale is that financial performance measures such as level of sales, return on investment etc. are determined by marketing effectiveness which, in turn, is dependent on marketing culture.

Customer Retention and Service Firms

As both a determinant and indicator of performance, customer retention has received considerable interest in the service marketing literature during the last few years. The importance of customer retention is due to the fact that it is considered a major determinant of market share and profitability. Advocates of this theory include scholars such as Reichheld and Sasser [1990], Heskett *et al* [1994], Storbacka *et al* [1994], Rust *et al* [1995] and Reichheld [1996]. Particular sectors in the service industry where this relationship has been established include banks [Roth and van der Velde, 1991; Rust and Zahorik, 1993] and hospitals [Nelson *et al*, 1992].

Until recently, conventional theories of sales and market share performance had been dominated by the offensive marketing paradigm which suggested that improvements in the levels of these indicators were attributed, firstly, to advertising and other offensive marketing influences [Aaker, 1982; Bass and Leone, 1983], and secondly, to promotional activity and other factors [Guadagni and Little, 1983; Lattin and Bucklin, 1989; Fader and McAlister, 1990]. Although not completely fallacious, this approach does not stress the significance of customer retention on market share and profitability. However, as a consequence of findings from studies conducted for the US Office of Consumer Affairs which indicates that it could be five times as expensive to gain a new customer compared with retaining an old one [see Peters, 1988], business practitioners and scholars alike have begun to give much attention to the concept of customer retention.

Customer retention enables the firm to reap rewards such as continued purchase of services from the same supplier, increasing the scale or scope of the relationship and word of mouth recommendation which provides free advertising. To increase the overall effectiveness of customer retention, it is suggested that service firms should seek to explore both the length and depth of the relationship through cross selling. In achieving this, the business is able to create enhanced profits through increased sales, decreased costs to attract new customers, lower customer-price sensitivity and reduced costs to serve customers familiar with the service delivery system [Reichheld and Sasser, 1990; Hallowell, 1996; Reichheld, 1996].

Elsewhere, the service management literature discusses the antecedents to customer retention such service quality [Storbacka, 1994], customer satisfaction [Rust and Zahorik, 1993; Hallowell, 1996], relationship quality [Storbacka *et al*, 1994], service recovery [Hart *et al*, 1990; Spreng *et al*, 1995], customer service [Lewis, 1989; Prokesch, 1995; Weiser, 1995] and learning relationships [Pine *et al*, 1995]. Moreover, there has been a strong advocacy for the adoption of customer retention (via zero defection benchmarks) as a performance indicator in service firms [Reichheld and Sasser, 1990].

Hypothesis Development

It is interesting to note that several antecedents to customer retention are generally rooted in the marketing concept. Given the importance of marketing and customer retention to service businesses as highlighted in the current service management literature, a critical research agenda that requires attention is whether there is a significant link between marketing effectiveness and customer retention. In order to provide an underlying basis for postulating an association between marketing effectiveness and customer retention, a number of arguments are drawn upon. First, marketing effectiveness has been found to be related to long-term satisfaction needs of customers [Anderson, 1982]. Hence, it implies that the ability to retain customers is partly influenced by effective marketing practices. Since success in implementing the marketing concept effectively is inherently associated with identifying and satisfying customer needs, it can be argued that marketing effectiveness will also have an indirect link with customer retention via satisfaction. This is based on the premise that customer satisfaction results in retention [Hallowell, 1996]. Moreover, it is suggested that all major decisions taken by a business should be considered as investments, and hence, decisions to

institute appropriate measures which facilitate a successful implementation of the marketing concept should be assessed on the basis of potential returns. Webster [1995] argues that such investments are expected to result in long-term customer satisfaction and marketing effectiveness but we add that, ultimately, these two success factors are likely to lead to customer retention. In this context, it is posited that investments in the customer and front line staff are eventually the key to marketing effectiveness [Kotler, 1997]. Given the strong link which has been established between customer satisfaction, front line employee satisfaction/loyalty and customer retention [Reichheld, 1993; 1996], we contend that the achievement of marketing effectiveness will lead to customer retention. Based on the foregoing arguments, it is possible to hypothesise that: *a service organisation's degree of marketing effectiveness is positively associated with its customer retention levels.*

Methodology

Survey Administration

The study reported is a cross-sectional survey of a sample of 500 service firms operating in the UK. All the organisations selected had more than 500 employees and were drawn from the FAME CD-ROM database (see Appendix 1). They comprised businesses in the banking, hotel, tourism and airline industries. These four sectors were focused upon due to their degree of intangibility and common use [cf. Webster, 1993]. Following a limited pilot survey which was conducted by pretesting the instrument on 20 marketing executives, minor amendments were made. Thereafter, a questionnaire and covering letter were posted to 250 directors and 250 regional managers of the service firms chosen. Follow-up questionnaires were sent to those who did not respond to the first mailing. Response to the first and second surveys were 85 and 37 respectively. However, due to missing data on major constructs 4 questionnaires were deemed unusable, resulting in 118 usable questionnaires which represented a 23.6% response rate. Participation in the survey was declined by eleven firms as it was against company policy and three questionnaires were returned because of incorrect addresses.

Operationalisation of Measures

Marketing effectiveness is represented by 5 components and 31 individual items as illustrated in Appendix 2 [Kotler, 1977]. A subjective measure of customer retention performance was employed in the current study, given the difficulty in obtaining such data either from

documentary sources or private firms. Dess and Robinson [1984] contend that the accuracy of objective data in explaining variation in performance between organisations is limited. It has also been found that informant data exhibit less method variance than archival data and subjective measures have a strong correlation with objective performance indicators [Venkatraman and Ramanujam, 1987]. Subjective assessments are also regarded as a reliable means of estimating performance [Pearce *et al*, 1987]. The assessment was based upon executives' perceptions of customer retention relative to those of their major direct competitors in the last 5 years. Furthermore, one item requested respondents to give an overall impression of their firms' degree of marketing effectiveness by circling a 7-point Likert type scale which ranged from 1 (very low) to 7 (very high).

Analysis and Results

Reliability Analysis

A 7-point Likert scale was utilised for the questionnaire items to increase reliability of the measures [Churchill & Peter, 1984]. Table 1 reports the coefficient alpha values for each facet of marketing effectiveness [Cronbach, 1970]. These scores are all greater than the suggested cut-off level of 0.70 [Nunnally, 1978] and within the acceptable range. Further, Table 1 indicates that alpha values are close to their respective standardised alpha scores (this compensates for effects of the number of scale items), thereby, strengthening support for the reliability of marketing effectiveness as a construct. The overall scale's high Cronbach alpha (> 0.7) demonstrates that the measure is reliable with respect to internal consistency among its items.

Dimensions of Marketing Effectiveness	No. of Items	Cronbach Alpha	Standardised Cronbach Alpha
1. Customer Philosophy	8	0.869	0.878
2. Marketing Information	9	0.840	0.862
3. Operational Efficiency	8	0.822	0.827
4. Strategic Orientation	3	0.691	0.780
5. Integrated Marketing Organisation	3	0.697	0.725

Content Validity

The validity of a construct denotes the level to which it encapsulates the concept it is intended to represent and its evaluation is qualitative in nature rather than quantitative. Content validity of a measure is based on the scale to which its items represent the construct's domain [Parasuraman *et al*, 1988] and how scrupulously this domain is specified by the items that exhaust it [Churchill, 1979]. The procedure followed by Webster [1990] is consistent with Churchill's [1979] suggestions for developing psychometric marketing scales.

Convergent Validity

To verify convergent validity for the marketing effectiveness measure respondents were asked to provide their overall impression of the degree of marketing effectiveness of their businesses on a 7-point Likert type scale, where 1 and 7 signified very low and very high effectiveness levels respectively. Using a multiple regression analysis *overall impression of the degree of marketing effectiveness* represented the dependent variable while the remaining marketing effectiveness dimensions were taken as independent variables. Table 2 reveals that Rsq is 0.25 at a significance level of 0.001. The significant coefficients associated with each dimension of marketing effectiveness strengthens the case for convergent validity of the construct.

Independent Variables	Coefficients	p value
1. Customer Phitosophy	0.20	0.030
2. Marketing Information	0.17	0.040
3. Operational Efficiency	0.25	0.019
4. Strategic Orientation	0.13	0.015
5. Integrated Marketing Organisation	0.08	0.045

R² = 0.250
Adjusted R² = 0.240
Significance = 0.001

Marketing Effectiveness and Customer Retention

The regression analysis of marketing effectiveness components on perceived customer retention is reported in Table 3. In conjunction with Table 4, it can be seen that four of the five

effectiveness dimensions are significantly and positively related to customer retention. Despite the non significant association between marketing organisation and customer retention, the relationship is still positive. In terms of explanatory power, customer philosophy contributes most to customer retention, followed by marketing information, operational efficiency and strategic orientation in that order. The inference is that managers whose firms are characterised by relatively high levels of marketing effectiveness perceive their organisations as achieving superior customer retention rates compared to their marketing ineffective counterparts. Table 4 indicates that in total, marketing effectiveness accounts for 57% of the overall variance in customer retention among the sample of service organisations surveyed in this research.

	Increase in R ²	1	2	3	4	5
1. Customer Philosophy	0.42	1.00	0.17	0.20	0.31	0.29
2. Marketing Information	0.07	-	1.00	0.31	0.37	0.30
3. Operational Efficiency	0.05	-	-	1.00	0.19	0.22
4. Strategic Orientation	0.02	-	-	-	1.00	0.31
5. Marketing Organisation	0.01	-	-	-	-	1.00

	T	Sig	R ²	Adj R ²	SE	F	Sig
1. Customer Philosophy	9.71	0.006	0.42	0.40	1.09	11.13	0.001
2. Marketing Information	8.94	0.003	0.49	0.47	0.92	9.98	0.006
3. Operational Efficiency	7.68	0.004	0.54	0.52	0.81	9.46	0.009
4. Strategic Orientation	6.49	0.007	0.56	0.54	0.58	5.97	0.005
5. Marketing Organisation	2.61	0.172	0.57	0.56	0.49	3.22	0.010

Discussion

An evaluation of the findings reported in Tables 3 and 4 suggests that of all the marketing effectiveness dimensions, customer philosophy is perceived as the most critical determinant

of customer retention. This reinforces calls by writers for service firms to strive towards high levels of customer orientation. In this respect merely satisfying customers is not sufficient to retain them as the gulf between *satisfaction* and *complete satisfaction* can swallow a business [Jones and Sasser, 1995]. Hence, complete satisfaction should be the ultimate goal in all the customer monitoring efforts of service firms. By attaining this goal, the business is likely to reap benefits of repeat business and word-of-mouth recommendation from retained and loyal customers as well as new business from free advertising. Intuitively, it can be argued that a service firm which has specific offerings and marketing plans for its different segments and also recognises the importance of organising itself to serve the needs of chosen markets, thereby reaching its target segments effectively, is more likely to achieve higher levels of customer retention. In all probability such a firm tends to place increased emphasis on its image, while adapting the whole marketing system in business planning.

In addition, our results reveal that the effectiveness dimension of marketing information is held in high regard as a strong predictor of customer retention among executives of service firms. This finding is consistent with the view that firms which conduct regular marketing research studies of customers, buying influences etc. are better positioned to identify changing trends in buyer needs and behaviour, and therefore, more likely to achieve superior customer retention rates compared with the competition. Where managers appreciate the sales and profitability potential of various segments, efforts will be made to evaluate the cost effectiveness of marketing research activities and the consequent findings can be used as a guide for effective allocation of resources for customer orientation programmes, with the ultimate goal of enhancing customer satisfaction and retention.

The evidence reported indicates that operational efficiency is also rated relatively highly by service firm executives as an important determinant of customer retention. A clear communication of marketing thinking and definition of a firm's business domain by top management, supported by effective marketing implementation down the line, enables employees to be better positioned to deliver a uniform service, while customers would be well placed to know the quality of service to expect. Where consistency between expectations and delivery results in very high levels of satisfaction, it is likely to lead to higher rates of customer retention. If a service firm effectively manages marketing resources to ensure that customers

are well catered for and seeks regular and systematic improvement in this area, the firm will develop a reputation as a company which cares, thereby, winning the affection of its customers. This supports the sentiments that customer care is an important ingredient of customer retention in the delivery of services [Lewis, 1989]. Firms that demonstrate a good capacity to react quickly and effectively to on-the-spot developments tend to be regarded as efficient. It seems that an ability to resolve problems is particularly linked to customer satisfaction [Hart *et al*, 1990; Spreng *et al*, 1995], and word-of-mouth concerning problem resolution can be a potent force in building an organisation's reputation and retaining customers [Reichheld and Sasser, 1990; Reichheld, 1996]. Hence, attempts made by executives to manage marketing resources effectively and coordinate marketing management with other functional units should facilitate behaviours that produce satisfied customers who do not only continue using the firm's services, but also provide positive word-of-mouth recommendation. A further aspect of operational efficiency is community relations. Clearly, a firm which is perceived as a good community neighbour stands to benefit from the custom of its neighbourhood and should be able to hold on to these customers as long as this positive image is maintained over the long-term.

Further, the results imply that strategic orientation is regarded as a reasonably favourable contributor to customer retention in service firms. By virtue of this finding, it is reasonable to suggest that a service firm that focuses on long-range growth is likely to achieve its goals through high levels of customer retention, although it may also consider acquiring new customers. In this respect, such a firm will utilise formal short and medium-term marketing planning with the appropriate contingencies and an emphasis on high quality marketing strategies. Combined with a focus on good quality service, this firm is likely to be better positioned to increase customer retention levels relative to its competitors. This is because service quality is regarded as a critical determinant of customer satisfaction, a factor which has been established as a key contributor to the development of strong and lengthy relationships with customers [Storbacka *et al*, 1994].

Finally, the results suggest that of all the five marketing effectiveness dimensions, only integrated marketing organisation is perceived as a non significant contributor to customer retention. Nonetheless, it must be appreciated that the relationship is still positive at a

significance level of 0.10. Indeed, the ability of service marketing executives to work well with management in other functional areas should ideally lead to the delivery of services that meet the market oriented firms' customer needs. Similarly, high level integration and control of the major marketing functions is likely to facilitate the appropriate mechanisms required to serve customers effectively which, in turn, should result in satisfaction and retention. Further, a well organised new product/service development process will take into account customers' views and preferences. The consequences of this should be a creation or provision of services which foster loyalty through relationship continuance, increased scale or scope of relationship and recommendation due to the greater quantity of value received from the supplier in comparison with the competition.

Conclusions and Implications

This article has provided an insight into the characteristics of marketing effectiveness and customer retention through a cross-sectional study of service firms in the UK business environment. As opposed to previous studies which were based on the link between marketing effectiveness and financial performance measures, this study emphasises the need to consider customer focused performance indicators. Utilising a comprehensive set of measures and statistical analyses, all but one of the marketing effectiveness components are found to be perceived as important determinants of customer retention in service firms. Specifically, our findings suggest that the ranked order of perceived importance of these determinants begins with customer philosophy, followed by marketing information, operational efficiency and strategic orientation while integrated marketing organisation is perceived as a non significant contributor to customer retention. In accordance with the contention that marketing effectiveness is an important antecedent to customer retention, the evidence reported in this article regarding the perceptions of UK service firm managers indicates that, to a large extent, this is the case.

A growing body of management literature continues to provide evidence that the propensity for firms to endorse and implement the marketing concept is due to the fact that there are positive consequences associated with the practice of marketing and that these benefits can never be gained otherwise. Intuitively, if marketing effectiveness results in higher levels of customer retention, it would be important to investigate the characteristics of

organisational marketing practices that create such effectiveness. Hence, even though certain facets of organisational variables in service firms such as strategic, operations and human resources management may be important contributors to customer retention performance, the features of customer philosophy, marketing information, operational efficiency, strategic orientation and integrated marketing organisation are given more emphasis when an executive acquires a full knowledge of the strategic marketing issues confronting the organisation. It is a reasonable assertion that if one is to realise a firm's potential to tackle marketing management issues successfully, then commitment to operationalising the marketing concept effectively in conjunction with all other functions is the key.

Central to this study was the exploration of the perceived impact of marketing effectiveness on customer retention in UK service firms. As indicated earlier, although the relevant literature has tended to focus on the links between marketing effectiveness and financial performance, this paper contends that there are multiple outputs of effectiveness such as customer based consequences that have still not been fully explored. In fact, direct outcomes of marketing effectiveness such as customer retention or satisfaction may even moderate its relationship with financial performance [Heskett *et al*, 1994; Hallowell, 1996]. Judging from our study, executives of UK service firms seem to acknowledge that marketing effectiveness can be a vehicle to providing businesses with the ingredient regarded by many as the key to growth and profitability. The understanding of such benefits may lead to the evolution of more executives who appreciate the value of sound marketing practices, and consequently, the building of long-term marketing thinking into daily operations. The ability to address strategic marketing issues in order to manage an organisation more effectively can assist in creating a competitive advantage to improve the strategic position of the business.

Finally, not only does the establishment of a linkage between marketing effectiveness and customer retention seem to reinforce the importance of well founded marketing practice in service organisations, it clearly recognises this critical but empirically under researched array of marketing effectiveness dimensions. Hence, it may be necessary for scholars to place more emphasis on the process of achieving marketing effectiveness. In this context, one issue worthy of investigation might be an examination of the association between marketing effectiveness and a combined battery of outcomes including financial, organisational and

customer based benefits as well as the inter relationships between the different categories of outcomes. In the meantime, the evidence reported in this study has reinforced support for the recognition given to various dimensions of marketing effectiveness and established their potential usefulness as important determinants of customer retention.

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APPENDICES

Appendix 1: FAME CD-ROM Database

FAME is a financial database on CD-ROM containing information on 270,000 major public and private British companies from the Jordan Watch and Jordan Survey database. Up to 5 years of detailed financial information and some descriptive details are also available on the database.

Appendix 2: Marketing Effectiveness Dimension and Individual Items

Operational Efficiency

- * The firm achieves good sales.
- * The firm is a good community neighbour.
- * Management clearly defines and communicates the nature of the business.
- * Management is committed to marketing excellence.
- * The firm regularly and systematically seeks improvement.
- * Marketing thinking at the top is communicated and implemented down the line.
- * Marketing shows good capacity to react quickly and effectively to on-the-spot developments.
- * Management effectively manages marketing resources.
- * Marketing management works well with the management in other functional areas.

Customer Philosophy

- * Management encourages word-of-mouth communication.
- * The firm monitors customer satisfaction.
- * The firm effectively reaches its target market.
- * The firm is customer oriented.
- * The firm places importance on business image.
- * The firm recognises the importance of organising itself to serve the needs and wants of chosen markets.
- * The firm has different offerings and marketing plans for different segments of the market.
- * The firm adapts the whole marketing system in planning its business.

Strategic Orientation

- * The firm focuses on long-range growth.
- * The firm provides good quality service.
- * The firm places more importance on marketing than any other functional area.
- * The firm formulates an annual marketing plan.
- * The firm is well positioned relative to its competitors.
- * The firm engages in formal market planning.
- * Current marketing strategy is of high quality.
- * The firm utilises contingency thinking and planning.

Adequate Marketing Information

- * Efforts are expended to measure the cost-effectiveness of different marketing expenditures.
- * Regular marketing research studies of customers, buying influences, etc. are conducted.
- * Management understands the sales potential and profitability of different market segments/customers.

Integrated Marketing Organisation

- * Marketing management works well with functional management in research, manufacturing, purchasing, physical distribution and finance.
- * There is high level marketing integration and control of the major marketing functions.
- * The new product development process is well organised.

CHAPTER 5

Market Orientation and Performance in the Biotechnology Industry: An Exploratory Empirical Analysis, 1998, Technology Analysis and Strategic Management, volume 10, number 2, pp 197-210.

Abstract

The purpose of this study was to conduct an exploratory investigation into the link between market orientation and business performance in the biotechnology sector. Based on the nature and character of the BioIndustry, a multi-faceted scale of market orientation was derived from a previously tested and refined measure of the construct. Data were generated from 62 biotechnology firms and a variety of market orientation-performance relationships were investigated alongside other potential effects on the different dimensions of business performance. The findings indicate that market orientation is positively and significantly associated with three of the four performance measures examined. Implications of our findings for BioIndustry managers are discussed and limitations of the study as well as future research directions are addressed.

Introduction

During the last decade, the attention of marketing and strategy scholars as well as business practitioners has focused on studies relating to market orientation, a concept which is hypothesised as an underlying source of superior business performance. This body of research has revived the marketing concept through the operationalisation and conceptualisation of market orientation. Several publications in management and trade journals have advocated the adoption of market orientation by organisations, as have countless speakers at business seminars and scholarly research presentations.

Market orientation is at the heart of the theory and practice of marketing management and is believed to be the foundation for a firm's competitive strategy. Its importance to organisations is widely acknowledged due to the prevailing wisdom that market orientation is critical for long-term success in the highly competitive environments of modern day businesses. As a result of the continual changes in customer needs and expectations with time, the offering of consistently superior products and services requires constant monitoring of, and

responsiveness to the emerging needs in the business environment, in other words, being market oriented.¹ Proponents of the marketing concept have advocated that a business that improves its market orientation will enhance its performance. It is argued is that a firm achieves consistently outstanding performance by creating sustainable competitive advantage through its superior customer value² and the sources of competitive advantage lie in the market-oriented seller's ability to create several additional benefits for purchasers.³ The desire to achieve superior value and sustainable competitive advantage motivates a firm to develop a culture that will produce the necessary behaviours, and Narver and Slater⁴ suggest that market orientation is *the organisation culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business.*

In spite of the insights which various research efforts have provided from different national business cultures, most studies have often been based on multi-industry samples. Nonetheless, Narver and Slater⁴ who employed a sample from one industry (forest products), acknowledged the essence of future research in exploring the market orientation-performance link within expanding industries such as high technology sectors, service sectors and the international marketplace. Although recent efforts have been made to examine the nature of the relationship among some service sectors such as architectural services,⁵ legal services,⁶ and the international context,⁷ little empirical research has focused on emerging industries in the high technology sector. The current study, which is based on a sample of firms in the UK biotechnology sector, examines the links between market orientation and performance in a new and rapidly expanding high technology industry.

The remainder of this article is structured as follows. The first section draws upon the relevant literature in exploring the basic components of market orientation and its application to the biotechnology sector. Secondly, we suggest why a biotechnology firm's level of market orientation is expected to be positively associated with performance. Third, the methodology, analysis and results are presented. Fourth, the findings are discussed in the light of existing literature and lastly, the implications of our findings for biotechnology managers and researchers are highlighted alongside study limitations.

Background and Hypotheses

Market Orientation

In response to the radical changes taking place in today's business environment, both managers and scholars are giving attention to how firms can develop and maintain a focus on their customers and markets. A business which is considered to be market oriented is one that successfully practises the principles of the marketing concept. As a construct, a number of writers have operationalised market orientation as a three dimensional concept. It is described by Kohli and Jaworski⁸ as: the gathering of market information about customers' current and future needs; the dissemination of this information across organisational functions; and, responsiveness of the organisation to this information. Narver and Slater⁴ suggest that market orientation comprises three behavioural dimensions, namely: customer orientation; competitor orientation; and, interfunctional coordination. Shapiro's⁹ three characteristics of market orientation are: permeation of information on purchasing influences throughout firm; interfunctional strategic and tactical decision making; and, commitment to executing decisions across functions. Ruekert¹⁰ identifies the sharing of a common theme in these conceptualisations: first, market orientation leads to actions by employees towards the markets served; second, these actions are guided by the information generated by the marketplace; and third, the actions cut across functional boundaries.

Based upon the extant literature, Pitt *et al*¹¹ suggest that market orientation may also be viewed as a philosophy consisting of three components. The first is customer orientation which calls for an understanding of customer needs in order for firms to position their business accordingly. Second is the integration of effort to facilitate coordination which is required for providing value to the customer. The third consideration is the fulfilment of requirements for realising organisational objectives which are vital for long-term direction. From a complementary perspective, Kohli and Jaworski⁸ suggest that the fundamental basis underpinning market orientation is the implementation of the marketing concept reflected in the activities and behaviours of a firm. Moreover, they argue that the expression *market orientation* is preferable to *marketing orientation* because of its emphasis on markets and the whole organisation. On the contrary, the term marketing orientation can be restrictive and misleading because it suggests that the concept is exclusively the concern of the marketing department.

The importance of market orientation as a phenomenon has fostered a steady stream of research in the management literature since the works of Kohli and Jaworski⁸ and Narver and Slater⁴ were published. The extant literature indicates that an area of research that continues to captivate the attention of scholars involves the consequences of a market orientation, particularly its association with business performance, although more recently, researchers are beginning to examine the impact of various internal and external environmental variables on market orientation. For instance, Jaworski and Kohli¹ found that organisational factors such as interdepartmental conflict, interdepartmental connectedness, reward systems and centralisation can influence the level of market orientation. Moreover, strategies associated with environmental scanning, product differentiation and market segmentation, together with a firm's strategic orientation have been identified as significant influences on the market oriented behaviours of firms.^{12,13}

Biotechnology Firms and Market Orientation

Biotechnology is the industrial application of biological organisms, systems or processes which is continuously changing in the light of new research. Although biological processes have been applied for centuries in processes such as baking (yeast), brewing and cheese-making, recent dramatic breakthroughs in genetic engineering in both plants and animal/humans have now opened the possibility of new markets and processes. With the application of these new technologies to novel industrial processes heralding new opportunities in marketing, the current study has been conducted in order to ascertain the importance or otherwise of market orientation in this new and rapidly developing sector. A number of studies have been undertaken to examine the roles of different organisational functions such as research and development (R&D), manufacturing and marketing in the biotechnology industry. The findings indicate that firms within the sector often spend a great deal of resources on R&D clinical trials and marketing.¹⁴ Through licensing arrangements and links with larger organisations, biotechnology firms may become market oriented but not in the conventional sense. Conventional marketing relies on a good knowledge of the customer base as well as soundly developed products. Often biotechnology firms have neither. In fact generally, the development of products may take several years, but the market for them may be enormous. An example of this is the development of clot busting protein by Genentech.¹⁶ On the other hand, promising trials of centoxin, a monoclonal antibody designed to treat 1997

bacterial septicaemia is on sale in the UK. In the USA a trial indicated that the drug might accelerate patient death, and hence, the Food and Drug Administration banned its usage. This raises the twin marketing problems of overdependence on one product and legislation.

In the United Kingdom *per se*. It has been argued by authors such as Walsh¹⁶, that demand issues, in a sector such as BioIndustry are crucially important. She goes on to argue that *elements* of a non-market selection environment such as the role played by public policy via regulation, licensing, and safety testing, plus the necessity of approval from professional groups, *as well as regular market characteristics of prices, availability and performance, all shape the nature of demand*. In this context, it is important to note that the markets for the product vary from country to country, with the USA market probably being essentially a private market as opposed to a more public sector market in the UK. Most companies in this sector, by the very nature of their products, potential products or services are linked to an International market.

In their study of the BioIndustry, Hamilton *et al*¹⁷ identified four typologies of companies. The first group consisted of organisations which were technologically driven, externally oriented and early movers who tended to understand the market but concentrated their efforts on product development. Later in their evolution, alliances were formed with firms who possessed marketing and manufacturing strengths. Firms within the second category were technologically driven, externally oriented and early movers who understood the scope of their activities and whose marketing efforts were therefore, largely internally driven with little recourse to outside agencies. Those in the third classification were technologically driven, externally oriented, late movers who tended to form alliances which were directed largely toward finding new uses for existing products or developing complementary new products. The final category comprised organisations which were market driven, internally oriented, and late movers. This group indicated that marketing and manufacturing activities were as important as R&D activities and they gave little emphasis to the formation of external alliances in their quest for innovation. Considering that the biotechnology industry is characterised by highly dynamic conditions, it is surprising that the above study found no group to be simultaneously market-driven and externally oriented. This is probably because firms with a clear market focus tended to develop marketing activities

internally.

In marketing terms, particularly within the UK, government intervention in the form of the Department of Trade and Industry offers marketing help and marriage broking for companies and prospective customers. An example of this is provided by the use of enzymes to reduce fat levels in effluents discharged by an ice cream factory, De Roma.¹⁸ Whatever the case, it appears that most biotechnology has been undersold, or at least under marketed.¹⁵ The notion is that often, the possibilities that biotechnology can offer have not been properly recognised by potential users or the developers of these methods. The gulf between market and product/producer can be wide.

A study by Vila¹⁹ found that a low emphasis on R&D, and consequently, a strong focus on marketing and manufacturing was positively associated with prospects for success. Due to the incipient nature of the sector, most firms appear to be reasonably focused towards competitors. The biotechnology industry is small, and therefore, research that is carried out is known by scientists in key laboratories throughout the world. Usually, there is a race to produce the first clone, such as Dolly the sheep,²⁰ or the first artificial human insulin. The competitive forces are therefore intense, at a scientific level, translating into profitable share growth when success is ultimately achieved. Such competitive intensity may prevent companies from taking an outward market oriented approach to business as the focus may well be on *winning* the race in science.

Hypotheses

Market Orientation and Performance

Market orientation calls for a firm to understand and satisfy the customer's needs and it is assumed that by doing so, one will reap rewards in the form of profits. It has been purported that for a company to achieve continuous above-average performance, it must create a sustainable superior value for its customers.^{2,3} This drive enables a firm to develop a market orientation culture,²¹ which enables it to acquire the behaviours required for providing superior value to customers, and ultimately, sustainable superior performance.²² Until recently the association between market orientation and performance seems to have been taken for granted, although there is now a growing body of empirical research on the subject. Since Kohli and

Jaworski⁸ and Narver and Slater⁴ reported that market orientation was positively linked to performance, a number of authors have examined this hypothesised relationship and found the existence of a positive association^{1,10,11,23,24,25,26,27} Indeed, market orientation has been found to enhance customer orientation,²⁸ financial performance,²⁹ and broader organisational performance variables such as organisational commitment and *esprit de corps*.¹ The above empirical studies were conducted in different countries and were based on samples ranging from single to multi-industries. Since the theory clearly suggests an explicit relationship between the market orientation of businesses and the attainment of their performance objectives, it is contended that this association will hold for strategic business units of large companies or whole organisations, in different industries and nations.¹¹

With regard to the BioIndustry, a market oriented firm's better understanding of its business environment should enable it to minimise the potential for new product failure, because the better appreciation of major customer needs by such firms will lead to the delivery of products or services with greater value to customers. It is expected that a market oriented firm's better appreciation of customers and competitors will facilitate sound decision making in the marketplace. Moreover, the measurement of customer satisfaction and response to the information collected will have a favourable impact on sales growth and market share.³⁰ There is a likelihood that a positive influence of market orientation on variables such as new product success and market share will subsequently improve profitability.^{31,32} However, it can be argued that there is a direct link between market orientation and profitability. For instance biotechnology firms focusing on activities that aim to understand and fulfil customer needs should offer products or services with relatively fewer problems from the user's perspective which should, in turn, result in greater profitability. The above discussion leads us to formulate the following hypotheses regarding biotechnology firms:

- H1 *The degree of market orientation is positively related to new product success*
- H2 *The degree of market orientation is positively related to growth in market share*
- H3 *The degree of market orientation is positively related to profit margins*
- H4 *The degree of market orientation is positively related to overall performance*

Performance

The concept of performance is mentioned in each hypothesis but has not yet been explicitly defined. The term is formally operationalised with all the other constructs in the research design section. Although performance can have a variety of meanings (eg. short or long term, financial or organisational benefits), it is broadly viewed from two perspectives in the extant literature. Firstly, there is the subjective concept which is primarily concerned with performance of firms relative to that of their competitors.³³ The second method is the objective concept which is based on absolute measures of performance.³⁴ Studies that have adopted both concepts have reported a strong association between objective measures and subjective responses.³⁵ Jaworski and Kohli¹ utilised both methods and obtained reliable responses for only their judgmental (subjective) dimensions. In the present study, a subjective approach was employed, firstly, due to the difficulty in obtaining objective data from documentary sources, and secondly, because respondents were reluctant to divulge such information which was classified as confidential.

Research Methodology

Data Generation

The sample for this study consisted 106 UK firms listed in the *UK BioIndustry Database*. Companies selected were producers or suppliers of biotechnology products and did not include suppliers of laboratory equipment. The instrument was pretested by personally administering it to ten respondents, after which revisions were made. A self-administered questionnaire was then mailed to the managing directors of the selected firms, together with a covering letter and a return postage paid envelope. The questionnaire asked for their perceptions on a range of organisational parameters including the nature or extent of market orientation, internal and external environmental variables and business performance. This information was collected using a seven-point scale (eg. 1 = strongly disagree to 7 = strongly agree) indicating varying degrees of agreement to statements about these variables. A second wave of mail was posted to those who did not respond to the first set of questionnaires three weeks after the first mailing. Forty seven and seventeen responses were received from the first and second mailings respectively. Of the 64 responses obtained, 62 were usable resulting in a response rate of 58.5%. The response rate compares quite favourably with previous research undertaken in this area.³⁶ The response rate is attributed to the importance of the issues which were being

investigated and the keenness of respondents to be provided with findings of the study. A follow-up telephone call to identify reasons for non-response revealed that some of the non-respondents considered themselves essentially R&D oriented, whereas others refused to cooperate because it was company policy not to participate in such surveys.

Scales and Measurements

To be able to explore the linkage between market orientation and performance as well as the influence of environmental effects, a number of measuring instruments were utilised.

Market Orientation. Narver and Slater's⁴ measure of market orientation was adapted for our study following minor revisions. The instrument consisted of sub-scales used to measure customer orientation, competitor orientation and interfunctional coordination. This construct has been found to be well developed and refined, possessing high levels of reliability.³⁷

Performance. Four specific indicators of performance were adapted from Slater and Narver's²⁵ study for the current research. These dimensions are as follows: *introduction of successful new products or services, market share growth, profit margin (profit before tax/sales) and overall performance.* Thus, performance was based upon a managing director's subjective response to questions assessing the results of *new product success, market share growth, profit before tax/sales and overall performance in the past three years relative to the main competition in their principal markets* on a 1 to 7 scale. Finally one item required executives to provide an *overall impression of the level of their firms' market orientation* on a 7-point Likert scale ranging from 1 (very low) to 7 (very high). Subjective measures of performance are frequently used in strategy research and have been shown to be reliable and valid.³⁸

Environmental Influences on Performance. To control for the impact of additional determinants of performance, nine control factors were included as independent variables in the regression equation. These were relative size,³⁹ relative cost,⁴⁰ relative product/service quality,⁴¹ time of market entry,⁴² competitor concentration,²⁵ market growth,⁸ market turbulence,⁴³ competitive intensity¹ and technological turbulence.⁴⁴

Analysis and Results

Reliability Analysis

A 7-point Likert scale was utilised for all questionnaire items to increase the reliabilities of the measures.⁴⁵ Table 1 exhibits the coefficient alpha scores for each item of the market orientation scale (as well as those of all the other multi-item constructs). The Cronbach alpha scores for the overall market orientation construct is greater than Nunnally's⁴⁶ recommended cut-off point of 0.7, suggesting a reasonably high level of reliability. Considering the small differences between individual item alpha values and the overall construct alpha score, it can be concluded that alpha will not be increased by omitting any of the items. This further augments the case for scale reliability.

Content Validity

The validity of a construct reflects the level to which it describes the concept it is designed to measure and its assessment is conducted on a qualitative basis. Content validity is characterised by the degree to which the construct's items represent a concept's domain,⁴⁷ and how rigorously this domain is captured by the items that exhaust it.⁴⁸ The process adopted by Narver and Slater⁴ is consistent with Churchill's⁴⁸ suggested approach for constructing psychometric marketing scales and a similar method was utilised in this research. Earlier on, face validity checks were undertaken with senior academics with sound knowledge about the BioIndustry marketing environment.

Table 1 - Reliability Analysis for Multi-item Scales

Scale Items	Item-to-Total Correlation	Alpha if Item Deleted
<i>Market Orientation Scale Coefficient Alpha 0.89</i>		
We strive to create value for the customer	0.33	0.88
Our strategies are based on understanding customer needs	0.28	0.87
Objectives are driven by customer satisfaction	0.24	0.87
Customer satisfaction is frequently assessed	0.44	0.85
Our firm responds rapidly to competitors' actions	0.47	0.84
Top managers regularly discuss competitors strategies	0.38	0.88
Customers are targeted when there is an opportunity to gain a competitive advantage	0.37	0.87
Our firm engages in interfunctional customer calls	0.55	0.87
Information about customers is freely shared throughout the firm	0.39	0.88
Business functions are integrated to serve our markets	0.41	0.87
Resources are shared among functional units	0.36	0.87
All functions contribute to create customer value	0.31	0.88
<i>Market Turbulence Scale Coefficient Alpha 0.74</i>		
In our market, customers' needs change frequently	0.46	0.72
In our market, products/services become obsolete rapidly	0.29	0.74
New customers are always entering our market	0.25	0.74
The strategies/actions of our competitors change constantly	0.38	0.73
<i>Competitive Intensity Scale Coefficient Alpha 0.72</i>		
The business environment is a threat to our survival	0.33	0.72
Tough price competition is a threat to our firm	0.36	0.72
Competitors product quality/novelty is a threat to our firm	0.51	0.7
Our competitors are relatively weak	0.39	0.71
<i>Technological Turbulence Scale Coefficient Alpha 0.77</i>		
Technology in our industry is changing rapidly	0.41	0.75
A large number of new product ideas have been made possible through technological breakthroughs in our industry	0.43	0.76
Technological developments provide big opportunities in our industry	0.32	0.77
Technological developments in our industry are rather minor	0.38	0.75

All Pearson correlation coefficients for item-to-total correlations significant at $p = 0.001$

Convergent Validity

Estimation of convergent validity for the market orientation scale was contingent upon respondents' feedback concerning the overall impression of market orientation in their organisations. On a scale of 1 to 7, the former and latter represented very low and high levels of overall impression of market orientation respectively. Based on overall impression of market orientation as a dependent variable and the remaining market orientation items as independent variables, a multiple regression analysis was undertaken. Table 2 indicates an R^2 of 0.28 which is significant at $p = 0.001$. It implies that the 12 item instrument adopted in this study exhibits convergent validity and is appropriate for assessing market orientation in the BioIndustry.

Table 2 - Validity Analysis for Market Orientation Scale

Dependent Variable: Overall Impression of market orientation		
Independent Variable	Std Regression Coefficient (Beta)	p-value
Market orientation construct	0.32	0.01

R^2 = 0.280
Adjusted R^2 = 0.250
Significance = 0.005

Main Effects on Performance

Market orientation was found to have a significant association with three of the four performance dimensions employed. The only non significant relationship was with new product success. In other words, there is no distinction between high and low market oriented biotechnology firms in terms of new product or service success rate, therefore, hypothesis 1 is rejected. Hypothesis 2 is accepted since a significant (0.01) and positive (0.42) association was identified between market orientation and the performance dimension of market share growth. Hence, our results suggest that highly market oriented businesses in the BioIndustry achieve a superior degree of growth in market share compared with their relatively low market oriented competitors. Market orientation was identified as having a significant (0.05) and positive (0.34) association with profit margins lending support to hypothesis 3. This finding could be due to the possible links between market share and profitability.³⁰ Finally, a

significant (0.05) and positive link (0.37) was established between market orientation and overall performance, suggesting that on the whole, highly market oriented biotechnology organisations perform better than those with lower levels of market orientation. This result supports hypothesis 4 and is consistent with findings of previous research studies which investigated the effect of market orientation on *overall performance* of firms in both the UK¹¹ and US.¹

With respect to the other environmental influences examined, the regression coefficient for relative product/service quality is statistically significant for the profit margins dimension of performance. Hence, it can be inferred that profits increase as product/service quality gets better relative to competitors. Relative size is positively associated with growth in market share, implying that firms achieve a growth in market share in the BioIndustry as they become larger. The results also indicate that profit margins increase as costs relative to competitors reduce. Furthermore, the positive relationship between market growth and profit margins suggests that expansion of the market provides opportunities for biotechnology firms to enhance profits. Finally, new product/service success rates increase as technological changes become more rapid, while market share growth is achieved with early market entry within the BioIndustry.

**Table 3 - Tests for Main Effects: Regression Analysis Results
Standardised Regression Coefficients (Standard Errors)**

<i>Independent Variable</i>	<i>Dependent Variables</i>			
	New Product Success	Growth in Market Share	Profit Margins	Overall Performance
Market Orientation	n/s	0.42** (0.23)	0.34* (0.12)	0.37* (0.18)
Relative Size	n/s	0.15* (0.10)	n/s	n/s
Relative cost	n/s	n/s	-0.14* 0.08	n/s
Relative product quality	n/s	n/s	0.23* (0.11)	n/s
Competitor concentration	n/s	n/s	n/s	n/s
Time of market entry	n/s	0.29** (0.15)	n/s	n/s
Market growth	n/s	n/s	0.39* (0.14)	n/s
Market turbulence	n/s	n/s	n/s	n/s
Competitor intensity	n/s	n/s	n/s	n/s
Technological turbulence	0.22* (0.09)	n/s	n/s	n/s
F	2.56	7.59	8.87	7.96
R ²	0.12	0.27	0.34	0.31
Adj R ²	0.11	0.23	0.31	0.28

* $p < 0.05$

** $p < 0.01$

Discussion and Implications

It was found that market orientation seemed to have no significant impact on new product success. Initially this finding may be surprising in the context of biotechnology companies, however this industry has its own peculiarities, in that it also needs to legitimise the products in the marketplace.⁴⁹ New product success, therefore, is dependent on more variables than just market orientation. Growth in market share, however, is significantly and positively associated with market orientation. Although inconsistent with some of the general results obtained in other sectors,^{1,27} this is an interesting finding. It is important to understand that in the BioIndustry, market shares will be in specific technologies. Even areas such as genetic engineering have specific applications for human/animal illnesses and different applications for plant genetics. Therefore, market share in the conventional Buzzell and Gale³⁹ PIMS studies carries little relevance. Another factor to consider here is the fact that any *new* biotechnology application that eventually gets to the marketplace and happens to have a significant impact is likely to do well as the markets are not mature and there may be a latent demand for new and innovative products in the initial lifecycle of these products. This is illustrated by the recent case studies reported by Chataway and Tait.⁵⁰ On the other hand, it is contended that the uncertainty of economic conditions and the risks associated with uncertain technological trajectories have often driven companies to work under inter-firm agreements in order to exploit the technological advantages in the marketplace.⁵¹ One could argue that the very notion of networks or collaborative arrangements⁵² which are aimed at improving market share points to the fact that networking may be a more effective means of establishing a presence in the marketplace as opposed to an individual market orientation in the company *per se*.

The positive relationship between market orientation and overall performance is probably due to the increasing emphasis placed by biotechnology companies on the importance of realising and understanding markets. Some of the research⁵⁰ reflects this type of thinking starting to invade many DBFs (Dedicated Biotechnology Firms). The overall performance and the profit margins are closely related, indicating a favourable link for market oriented companies. Although a positive link is established between market orientation and a number of performance indicators, other control variables are also found to influence various performance dimensions. Without such controls, the role of market orientation on business

performance is likely to be exaggerated.⁵³ For the BioIndustry other control factors which may be considered in addition to the ones generally utilised in the market orientation literature include variables such as the effects of networking, impact of large multinationals on biotechnology markets and a more detailed consideration of the role of innovation.

Regarding the effects of other control variables examined in addition to market orientation, relative product/service quality had a significant and positive association with profit margins among the companies surveyed. In an industry which is highly regulated and monitored,⁵⁴ maintaining quality is very important, hence, it is not surprising to find a positive relationship here. Moreover, market growth exerts a positive impact on profit margins. This result is in line with expectations as in times of market growth organisations such as the health service or agricultural businesses are more likely to begin to use new therapies and products.⁵⁵ The finding of a positive association between relative size and market share growth has to be tempered with caution when investigating the Biotechnology industry. This is because some firms are smaller off-shoots of larger agro/pharmaceutical companies. On the other hand, companies such as Amgene and Genentech have genuinely grown larger and as a consequence, possess more saleable products which have *grown* the market, resulting in a larger market in *specific* areas. The finding of a positive link between time of market entry and market share growth may be due to the advantageous asset positions over late entrants to the extent that to expedite asset accumulation involves efficiency losses, and moreover, first movers may enjoy advantages associated with better opportunities of obtaining key assets and securing advantageous positions in the marketplace.¹⁹ Finally, the link between technological turbulence and new product success is illuminating, suggesting that for many companies, investing in new technological processes yields some positive results in terms of new product success. In such a new and fluid industry, it is clear that technological changes are rapid and the quicker the uptake by firms, the larger the payoff in terms of new product success.⁵⁶ The non significant relationships between competitive intensity, competitor concentration and performance are counter intuitive and require further investigation. Both variables are considered to be important influences within the industry, and yet, no significant relationships were identified for any of the performance measures. This is contrary to the nature of the industry where friend and foe alike work cheek by jowl in science parks which are often concentrated near universities such as Cambridge and York, thus, facilitating better

communication and also providing opportunities for law and accountancy firms to undertake specialist work in the sector.

Conclusions and Limitations

The main purpose of this study was to apply tried and tested techniques devised by Narver and Slater⁴ to the emerging biotechnology industry in order to ascertain the impact of market orientation on selected measures of performance (new product success, profit margins, growth in market share and overall performance). Specifically, this empirical effort responds to calls by the above authors to test their model in the high technology sector and other industry specific situations in order to examine the universal significance of the market orientation concept. The market orientation-performance link was checked for potential linkages and effects of several control factors from the competitive environment. The research contributes to the market orientation literature which has generally, thus far, neglected rapidly emerging high technology industries, despite the plethora of studies based on different contexts such as services,⁵⁷ forest products,^{4,25} small businesses,^{27,58} and large companies randomly drawn from the Dun and Bradstreet database.^{1,37,59} As this is the first attempt to undertake such a study within the BioIndustry sector, the findings should be seen as tentative, given the issues examined and the limitations of the study.

The first limitation is the causal link between market orientation and overall performance. It may well be that this link is not as clear cut as it may first appear. Often, such success is determined by previous and not current management action on market orientation. Another limitation surround the use of the control variables. In this study, the Rsq scores in the regression analyses are relatively low, implying that a significant amount of the variance in each dependent variables is explained by other possible factors. These may include networking capability,⁵² patenting regulations,⁵⁴ strategy/structure fit,⁶⁰ and potentially, the ability to raise and sustain the momentum to raise funds in financial markets. In this particular industry, market orientation may well be the ability to convince markets of the *possibility* of successful product development rather than the actual development and marketing of such a product. Walsh¹⁶, also contends that as a result of disappointing market demand in previous years, firms in the BioIndustry have attempted to play an *active role in shaping demand*, first, by modifying their output to orientate themselves to a different customer base from that

initially anticipated and, second, by intervening actively in the public arena. This intervention is based on attempts to modify the regulatory and policy environment that influences demand. Most companies are members of the BioIndustry Association in the UK. This Association is actively linked to EuropaBio which hopes to link all European Bio companies. It could be argued that this very awareness constitutes *a degree* of market orientation which many companies exhibit. The market orientation methodology, however, needs to be adapted better to this particular sector. A final limitation is the single respondent questionnaire design. Subsequent research efforts could be augmented with multiple interviews and single company profile development.

To conclude the research instrument which has been tested in other industry sectors and found to be reliable, appeared to work appreciably well despite the fact that in this instance, it was a pioneering attempt to consider employing the construct in a BioIndustry context. In this regard, some useful information has been gained, not least the possible further refinement and application of this construct in differing contexts, using a wider variety of potential control variables. Future research which augments this study, by incorporating the suggestions highlighted in conjunction with the applications in the same sector and in different national contexts, would provide additional insights into the effects of a market orientation as well as other potential organisational and public policy variables that influence performance in this rapidly emerging high technology industry.

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CHAPTER 6

Market Orientation and Performance: Do the Findings Established in Large Firms hold in the Small Business Sector? 1997, Journal of Euromarketing, volume 6, number 3, pp 1-26

Abstract

This study examined whether the market orientation-performance link established in large firm studies hold in the small business sector and tested for the possible effects of market growth, competitive intensity, market and technological turbulence on any identified relationships. Specific performance measures used were new product success, sales growth and ROI. Based on constructs of the aforementioned variables, a research instrument was developed for the study and data were gathered through a self-administered mail survey among a UK sample of small firms. Our findings suggest that there is a positive impact of market orientation upon small business performance. In addition, evidence is provided on the mixed effects of the competitive environment on the market orientation-performance relationship. To conclude, we discuss implications of the findings for small business managers as well as study limitations and future research directions.

Introduction

In recent years, considerable attention has been given to the marketing concept, with a focus on offering high quality products and services to customers (Day and Wensley, 1988). The marketing discipline emphasises customer orientation and innovation as a fulcrum around which all business strategy and planning revolves. Managers place substantial emphasis on the marketing concept as a cornerstone of the marketing discipline as well as a business philosophy. Proponents argue that marketing is critical to the successful implementation of business strategies (Webster, 1988), with a large number of studies in the pertinent literature highlighting a renewed management interest in developing a customer focused business (Shapiro, 1988; Webster, 1988). Since customer needs and expectations constantly change with time, offering consistently superior quality products and services calls for continuous tracking and responsiveness to changing needs in the business environment, in other words, being *market oriented* (Kohli and Jaworski, 1990).

During this decade, a steady stream of research has focused on the concept of market orientation and its impact upon business performance (Narver and Slater, 1990; Ruekert, 1992; Jaworski and Kohli, 1993; Diamantopoulos and Hart, 1993; Greenley, 1995; Pitt *et al*, 1996). This revival has been a motivating factor for the continued investigation into the relationship between firm performance and marketing implementation through market oriented behaviours (Pelham and Wilson, 1996). The significance of including market orientation in an integrated model of determinants of performance is highlighted by several research findings which indicate that there is a notable influence of market orientation on customer orientation (Siguaw *et al*, 1994), organisational commitment and *esprit de corps* (Jaworski and Kohli, 1993). Moreover, a positive relationship has been established between market orientation and financially based performance measures such as relative return on assets (Narver and Slater, 1990), long run financial performance (Ruekert, 1992), sales growth (Slater and Narver, 1994; Pitt *et al*, 1996) and profitability (Slater and Narver, 1994; Pelham and Wilson, 1996; Pitt *et al*, 1996).

Clearly, the identification of significantly positive effects in empirical findings of this kind is crucial for business practitioners, since they can highlight the potential benefits that could accrue to a business from improving its level of market orientation through selective allocation of human or financial resources. However, whereas empirical evidence from the US provides strong support for a positive association between market orientation and performance, studies undertaken in other countries, particularly the UK, have provided mixed findings. For instance, Pitt *et al* (1996) reported a positive link between market orientation and performance, Diamantopoulos and Hart (1993) identified a weak association, while Greenley (1995) found no direct linkage, although it is noteworthy that the last two studies identified possible moderating influences on the relationship. Thus, in the UK context, there appears to be equivocal empirical support for the assertion that market orientation leads to enhanced business performance, suggesting that further empirical research is required to establish the potential impact of a market orientation upon firm performance.

Although there is a propensity for a low effect of market orientation on performance among small businesses, marketing scholars and managers have continued to argue over the last three decades that a business which improves its market orientation will enhance its

performance (see, e.g., Levitt, 1960; Kotler and Andreason, 1987; Narver and Slater, 1990). For small businesses in particular, it has been suggested that market orientation is likely to be a vital factor for success since such firms usually lack the financial means to pursue other sources of business profitability, such as research and development, competitive advantage, low cost leadership or skilled staff to develop effective planning strategies (Pelham and Wilson, 1996). Evidence of this sentiment can be inferred from the findings of Narver and Slater (1990), which suggest that large strategic business units (SBUs) with a low level of market orientation, but low cost advantages, performed better than smaller SBUs with a medium degree of market orientation in the same organisation, but not smaller SBUs with a high degree of market orientation.

Hypotheses Development

Market Orientation and Performance

In order to determine whether the findings established in a large firm context also hold in the small business sector, relevant theoretical concepts purported to apply to firms of varied sizes as well as previous evidence from both small and large firm market orientation studies are used to develop our hypotheses. Thus, we draw upon theories from the marketing, strategy and general management literature. It has been reported in the extant literature that there is a direct positive relationship between the degree of market orientation and performance. This claim is based on the argument that market orientation provides a united focus for the efforts of a firm's employees and a sustainable competitive advantage (Aaker, 1988; Day and Wensley, 1988) through the ability to develop long term superior value for its customers. The notion of sustainable competitive advantage presents a sound basis for expectation that market orientation can provide a firm with the potential to outperform its competitors.

Moreover, with respect to small businesses in particular, another premise for this expectation lies in the *strong culture theory* (Dennison, 1984; Weick, 1985). It is argued that a strong culture can provide cohesiveness and focus in plans and activities. Since small businesses are noted for their lack of formal coordinating systems, a sound market oriented culture may serve as an alternative to such systems, by providing focus and discipline to the various business functions in the execution of strategies. In spite of arguments that the strong culture theory is too simplistic (Saffold, 1988), there is evidence to support the assertion that

a culture that is externally oriented has a stronger association with performance than a culture which is internally focused. For instance, Deshpande *et al* (1993) found that *market culture*, characterised by its focus on competitive advantage and market superiority, was associated with higher levels of performance than were *adhocracy*, *clan* and *hierarchical* culture types.

The better appreciation of environmental conditions by market oriented businesses should also enable such firms to reduce the incidence of new product failures (Cooper, 1984). In Slater and Narver's (1994) study of a forest products organisation's SBUs, it was established that market orientation had a significant impact upon new product success rate. Pelham and Wilson (1996) also reported similar results in a study of US small firms. This supports earlier empirical evidence by Roberts (1990) which indicates that, although entrepreneurial businesses commence with product orientation, most progress toward market orientation by allocating additional resources and time to processes that generate customer understanding. A greater understanding of customers and competitors by a firm results in more effective decision making, leading to higher sales growth (Pelham and Wilson, 1996). The tracking of customer satisfaction by a market oriented firm and its timely response to the information generated, results in higher customer retention, which positively influences sales growth. Moreover, the positive relationship between market orientation and sales growth (controlling for market environment) has been reported by Slater and Narver (1994). A similar link was established by both Pitt *et al* (1996) and Caruana *et al* (1995) who both treated sales growth as one component of their three performance measures. Although there is a need for caution when generalising the findings of large firm studies to small businesses, our hypotheses were established on the basis of these widespread positive links established in the large firm context and Pelham and Wilson's (1996) small firm findings, as well as the theoretical assertions of the marketing concept:

H1: Market orientation in small firms is positively related to new product success.

H2: Market orientation in small firms is positively associated with sales growth.

Based on the above propositions, it is possible that there is an indirect but positive impact of market orientation on firm profitability via new product success (Cooper 1984) and sales growth (Venkatraman and Prescott, 1990). However, it has been suggested that there are also

direct effects of market orientation on profitability. For instance, in small firms where behaviours are consistently guided by values tailored toward customer satisfaction, the outcome should be higher consistency in decision making and strategy implementation (Pelham and Wilson, 1996). Consequently, costs involving error rectification caused by poor coordination will be reduced and expenditure incurred to achieve results will be minimised.

Empirical evidence of the link between market orientation and profitability (return on assets and return on investment) is presented by Narver and Slater (1990; 1994). They found that market orientation (controlling for market environment) significantly impacts upon return on assets. Similar results were reported by Chang and Chen (1994) and Caruana *et al* (1995) in studies of Taiwanese and Maltese firms respectively. Furthermore, in a recent comparative investigation into the market orientation-performance relationship in the UK and Malta, Pitt *et al* (1996) concluded that the hypothesised positive association between market orientation and profitability holds, regardless of cultural context and level of economic development. Finally, Pelham and Wilson's (1996) study established similar findings among a sample of US small firms. Therefore it can be expected that:

H3: There is a positive link between market orientation and small firm profitability.

Moderators of the Market Orientation-Performance Relationship

The four contextual variables outlined in Kohli and Jaworski's (1990) discussion of environmental moderators of the market orientation-performance relationship, and subsequently tested by Slater and Narver (1994) are employed in this study. They are market turbulence, technological turbulence, competitive intensity and market growth.

Market Turbulence: It is expected that market turbulence would influence the market orientation-performance link. For instance, the ability to adapt and respond to evolving needs of customers is critical to business success in a constantly changing business environment. In such conditions the small business executive may develop externally focused activities in order to identify and fulfil customer needs, and also to assist in monitoring the competition. Moreover, it has been found that perceived environmental turbulence is positively related to a firm's level of market orientation due to the firm's desire to minimise uncertainty and the

importance of market segmentation in such markets (Davis *et al*, 1991). Kohli and Jaworski (1990) suggest that in a stable environment where customer types and preferences do not change frequently over time, a market orientation is expected to have limited impact on performance because minimal modification to a marketing mix is required to serve such markets effectively. Testing this proposition in the small business sector, we hypothesise that:

H4: The greater the degree of market turbulence, the stronger the relationship between a market orientation and small business performance.

Technological Turbulence: It is argued that in markets which are characterised by evolving and rapidly changing technologies, a small firm may be able obtain a competitive edge through technological innovation (Covin and Slevin, 1989). For businesses which work with nascent technologies that are experiencing rapid transformation, the ability to gain a competitive advantage is likely to reduce - but not eliminate the significance of a market orientation (Kohli and Jaworski, 1993). On the contrary, businesses which operate with stable technologies need to rely on a market orientation to a greater degree to obtain a competitive edge because technology does not provide such a leverage (Bennet and Cooper, 1981; Houston, 1986). Furthermore, a market orientation is likely to be of more significance to industries that are characterised by stable technologies, because in technologically turbulent markets, major innovations are usually undertaken by research and development efforts outside the industry (Hayes and Wheelwright, 1984; Kohli and Jaworski, 1990). We test for this hypothesis in the small business context by suggesting that:

H5: The greater the technological turbulence, the weaker the relationship between a market orientation and small business performance.

Competitive Intensity: In a very competitive marketplace, customers are more likely to be faced with several different alternatives to fulfil their needs and wants. In such an environment, there is a tendency for firms to become more sensitive and responsive to the changing needs of customers in their business environments (Lusch and Laczniak, 1987). Hence, a firm which is not market oriented risks losing customers to its competitors, making market orientation a more significant antecedent to performance in highly competitive industries. Covin and Slevin (1989) found that in the small business sector, successful firms are characterised by innovation adoption orientations. The contention is that fierce

competition motivates small firms to search for new products and markets in order to survive, thus, there is a need to adopt a greater market orientation focus. On the other hand, in markets where demand exceeds supply, there is a possibility that businesses can get by with low levels of market orientation (Kohli and Jaworski, 1990). Consequently, it is hypothesised that:

H6: The greater the competitive intensity, the stronger the relationship between a market orientation and small business performance.

Market Growth: When the economy is growing and demand is strong, it is more likely that businesses can still perform well with relatively low levels of market orientation. In such conditions, demand can outstrip supply and customers usually accept offerings more willingly. On the contrary, in a feeble economy, buyers tend to be value conscious, thus, extra efforts must be made to gain a clear insight into the successful provision of superior value in order to satisfy customer needs. Moreover, due to difficulty with customer retention, additional ways of maintaining contact with the customer assume growing importance (Kohli and Jaworski, 1990; Slater and Narver, 1994). To test this proposition in the small business sector, we suggest that:

H7: The lower the rate of market growth, the stronger the relationship between a market orientation and small business performance.

Research Method

The specific objective of this study was to determine whether the market orientation-performance findings established in the large firm context also hold in the small business sector using a UK sample of small firms.

Questionnaire

A self-administered questionnaire was mailed to executives of UK small manufacturing and service enterprises. The questionnaire asked for respondents' perceptions on the nature or extent of market orientation, competitive environment and business performance. This information was collected using a seven point scale (e.g., 1 = strongly disagree to 7 = strongly agree) indicating varying degrees of agreement to statements about these variables. In addition information on the characteristics of respondent firms was obtained.

Sample

It was appreciated that there were difficulties in obtaining a universally accepted definition for a small business (Hertz, 1982). For instance, the Department of Trade and Industry's description of a small firm is one with up to 50 employees, whereas the Bolton Committee's (1971) definition of a small business is based on firms in the manufacturing sector up to 200 employees. Questionnaires were mailed to the managing directors of 500 small firms which were randomly drawn from Dun and Bradstreet's database of UK firms with employee size of between 10 and 50. The instrument was pretested by personally administering it to twenty respondents. Following revisions, the questionnaires and a personal letter were mailed to the selected businesses. A second mailing to non respondents followed after three weeks. To test for non respondent bias an analysis of early and late respondents was conducted on a number of key characteristics. No significant differences were found between these two sets of data at the 0.05 level (Armstrong and Overton, 1977), suggesting that non response bias was not a major problem. Of the 132 responses, 110 were usable, resulting in a response rate of 22 percent. Factors which may have contributed to this response rate include the fact that some firms had ceased trading since compilation of the database was completed. Others had contracted or grown to a size outside the range of employees set for this study. Nevertheless, the response rate compares quite favourably with previous studies undertaken in this field (cf. McDaniel and Parasuraman, 1986 [19%]; Hess, 1987 [22%]).

Profile of Respondent Firms

A profile of the respondent firms revealed a similar proportion of consumer/industrial and product/service businesses as shown below. The average number of employees in the 110 firms was 26. Although a reasonable proportion of consumer and industrial product and service firms is exhibited, there are no claims that this sample is representative of British small businesses.

<i>Product/Service Type</i>	<i>Percentage of Sample Number of firms</i>	
Industrial products	25.5%	28
Consumer products	28.2%	31
Industrial services	21.8%	24
Consumer services	24.5%	27

Measures of Constructs

In order to examine whether the market orientation-performance findings established in large firms also hold in the small business sector, eleven measuring instruments were used. Table 1 shows the dimensions and Cronbach alpha scores of the multi-item constructs.

Market Orientation: Pelham and Wilson's (1996) market orientation scale was adapted for the purpose of this study because of its applicability to small businesses. The nine measures of market orientation are derived from Pelham's (1993) investigation into small firm market orientation based on 160 small manufacturing firm proprietors and sales managers. Managing directors/owners of firms were selected as respondents for our study because top management perceptions reveal more complete judgements which can avoid intra-firm disparity of views and provide full information of the small business, however bounded this viewpoint (McKiernan and Morris, 1994).

Moderators: *Market turbulence* was operationalised by adopting the scales of Jaworski and Kohli (1993) as well as Pelham and Wilson (1996) and it evaluated the degree to which changes occurred in customer types and preferences, rate at which products/services became obsolete, and nature of competitors' strategies. *Technological turbulence* was derived from the constructs of Jaworski and Kohli (1993) and it assessed the scope, rate and impact of technological change in an industry. *Competitive intensity* was based on Jaworski and Kohli (1993) and Pelham and Wilson (1996). This scale measured threats posed by a business environment, as well as the behaviour and ability of competitors to be distinctive. *Market growth* measured the average annual growth rate of market size (total sales) in the last three years (Kohli and Jaworski, 1990). *Control Variables:* Seven items were included as independent variables in the regression analysis to control for their effects on business performance. These comprised the four potential moderating variables mentioned above as well as *relative product quality* (Jacobson and Aaker, 1987), *relative size* (Buzzell and Gale, 1987) and *relative operating cost* (Porter, 1980; Scherer, 1980) compared to the largest competitor.

Performance Measures: The specific dimensions adopted for this study were those employed by Slater and Narver (1994), who examined business performance over a previous 3 year

period, using *sales growth*, *new product success rate* and *return on investment*. Subjective evaluations were preferred to objective measures for a number of reasons. First, the subjective approach based on the managing director's response to questions assessing whether results were above or below expectations (with an anchor relative to expectations) allows for greater comparability across types of industries and situations, with varying standards of acceptable performance (Pelham and Wilson, 1996). On the contrary, objective measures of performance are influenced by industry-specific factors (Miller and Toulouse, 1986) and hence, directly comparing absolute measures for small businesses in a variety of industries would not be appropriate. Second, due to the difficulty in obtaining desired information from small businesses (Fiorito and LaForge, 1986), it was reckoned that sound data on performance could be obtained with subjective assessments. Third, interpreting objective measures for small businesses can be rather complicated. For instance, low profits or operating losses in small, growth oriented businesses may not be a sign of poor management if this apparent unsatisfactory performance is due to massive investments in product and market development (Covin and Slevin, 1989). Fourth, it has been shown that subjective measures are a reliable method for evaluating performance (Pearce *et al*, 1987), and research has reported a strong association between objective measures and subjective responses (Venkatraman and Ramanujam, 1986; Robinson and Pearce, 1988).

Table 1 - Reliability Analysis for Multi-Item Scales

Scale Items	Item-to-Total Correlation	Alpha if Item Deleted
<i>Market Orientation Coefficient Alpha for Scale 0.84</i>		
All our functions work together to serve our target markets	0.38	0.82
Our firm's strategy for competitive advantage is based on our thorough understanding of our customer needs	0.49	0.81
All our managers understand how the entire business can contribute to creating customer value	0.60	0.79
We respond to negative customer satisfaction information throughout the firm	0.34	0.83
Our firm's market strategies are driven by the understanding of possibilities for creating value for customers	0.48	0.81
Information on customers, marketing success and marketing failures is communicated throughout the firm	0.54	0.80
Managers discuss competitive strengths and weaknesses frequently	0.54	0.80
We frequently capitalise on targeted opportunities to take advantage of competitors' weaknesses	0.62	0.79
If a major competitor were to launch an intensive promotional campaign targeted at our customers, we would respond immediately	0.58	0.80
<i>Technological Turbulence Coefficient Alpha for Scale 0.68</i>		
Technology in our industry is changing rapidly	0.27	0.66
A large number of new product ideas have been made possible through technological breakthroughs in our industry	0.31	0.70
Technological developments provide big opportunities in our industry	0.41	0.67
<i>Market Turbulence Coefficient Alpha for Scale 0.64</i>		
In our market customer needs change constantly	0.38	0.64
In our market products/services become obsolete rapidly	0.28	0.61
The strategies/actions of our competitors change constantly	0.21	0.58
<i>Competitive Intensity Coefficient Alpha for Scale 0.76</i>		
The business environment is a threat to our survival	0.53	0.74
Tough price competition is a threat to our firm	0.50	0.75
Competitors' product quality/novelty is a threat to our firm	0.33	0.78

Significant level for item-to-total correlations ($p < 0.05$)

Results and Discussion

Reliability Analysis: A reliability analysis for each multi-item construct was conducted utilising Cronbach's coefficient alpha (Churchill, 1979) - see Table 1. Overall coefficient alpha scores for two constructs were above the cut-off point (0.7) recommended by Nunnally (1978). The marginally lower scores for market and technological turbulence could be due to the few items in these constructs. Table 1 also shows alpha figures on removal of each item. Due to the small differences between individual item scores and alpha for each construct, it implies that alpha will not be increased by deleting any of the items. This reinforces the argument for scale reliability.

Multicollinearity: Multicollinearity seemed to have little influence on these results because a variance inflation factor (VIF) analysis indicated that the maximum score associated with the independent variables was (1.075) below the 10 cut-off suggested by Neter *et al* (1985).

Validity: Evaluation of content validity of the scales was more of a qualitative exercise than it was quantitative. Two major features were: the degree to which scale items represented a construct's domain; and, the thoroughness with which a construct and its domain were explicated (Parasuraman *et al*, 1988). The steps followed by Pelham and Wilson (1996); Narver and Slater (1994); and, Jaworski and Kohli (1993) are consistent with the suggestions of Churchill (1979) for developing psychometric marketing scales. Furthermore, in this study, face and content validity checks were performed on the constructs to ensure that items would be meaningful to the sample and capture issues which were intended to be measured. These checks were performed with a group of small business executives and scholars with a knowledge of small business operations and marketing management.

Impact of Market Orientation on Dimensions of Performance

Hypotheses 1 through 3 examined the impact of market orientation on dimensions of performance. These were tested by regressing each performance measure on market orientation. Seven control variables were included as independent variables in the regression analysis. Table 2 presents a summary of the results, details of which are discussed in subsequent sections.

Market orientation has a significant ($p < 0.001$) and positive (0.36) impact upon new product success, thus, hypothesis 1 is accepted. Our result is consistent with those of Pelham and Wilson (1996) - US small businesses; Slater and Narver (1994) - SBUs of large US organisations; and, Atuahene-Gima (1995) - large Australian firms. However, this finding is inconsistent with Greenley's (1995) study of large UK organisations. Hence, it appears that generally, businesses which employ significant resources in order to understand/satisfy customers and also to monitor competitors are not only driven to develop new products, but do achieve more success in this area relative to their less customer or competitor oriented counterparts. Notwithstanding the equivocal empirical evidence, to a great extent, this relationship seems to hold for both large and small firms across different national frontiers.

Hypothesis 2 is supported since market orientation has a significant ($p < 0.005$) and positive (0.30) effect upon sales growth. While this result is consistent with Slater and Narver's (1994), it is inconsistent with the findings of Greenley (1995) and Pelham and Wilson (1996). These conflicting findings are not surprising when one considers Jaworski and Kohli's (1993) argument that market share may not be pursued as a strategy by all businesses and this may well apply to small and large firms alike. Yet still, the finding from this study is not inconsistent with received wisdom which suggests that, on the whole, market orientation is likely to lead to customer satisfaction, a factor which has been found to be linked to customer retention/loyalty which, in turn, has a positive impact on repeat purchase/sales growth (Innis and LaLonde, 1994). In the UK small business context, a possible implication of this finding is that the influence of market orientation on sales growth is indirect via new product success.

Market orientation has a significant ($p < 0.05$) and positive (0.27) effect on the profitability levels (ROI) of small firms, hence, hypothesis 3 is accepted. Our result is consistent with those of Slater and Narver (1990; 1994) and Pelham and Wilson (1996) but inconsistent with Greenley's (1995). This suggests that, in spite of other possible influences on business profitability, small businesses with a higher degree of customer and competitor orientation are likely to be more profitable. The ability of a business to cultivate an appropriate culture required to develop better value and quality products relative to its competitors is vital for achieving and maintaining superior performance. Moreover, if

customer orientation leads to retention/sales growth and repeat purchases result in lower customer acquisition costs, the outcome should be enhanced profitability.

Table 2 - Tests for Main Effects
Results of Regression Analyses Regression Coefficients (Standard Errors)

	ROI	Sales Growth	New Product Success
Market orientation	.27* (.18)	.30** (.14)	.36*** (.21)
Relative size	.31** (.18)	.14* (.07)	n/s
Relative cost	-.22** (.10)	-.17* (.08)	n/s
Relative product quality	.11* (.04)	n/s	n/s
Competitive intensity	-.20* (.16)	n/s	n/s
Market growth	n/s	.33* (.11)	n/s
Market turbulence	n/s	n/s	n/s
Technological turbulence	n/s	n/s	n/s
<i>F</i>	10.45	8.37	6.21
R sq	.46	.41	.32
Adjusted R sq	.44	.38	.28

* $p < 0.05$

** $p < 0.005$

*** $p < 0.001$

The finding that market orientation significantly and positively influences dimensions of small firm performance corroborates conclusions of the majority of research studies which have investigated the market orientation-performance link in large firms across different national cultures (Narver and Slater, 1990; 1994; Ruekert, 1992; Jaworski and Kohli, 1993; Chang and Chen, 1994; Atuahene-Gima, 1995; Caruana *et al*, 1995; Pitt *et al*, 1996). In addition, our results regarding new products and profitability lend support to Pelham and Wilson's (1996) conclusions on small US firms. A possible explanation for the inconsistent

findings regarding sales growth performance may be due to market growth influences on both studies. While Pelham and Wilson's data was gathered during a recession period, our research was conducted in growing market conditions. This study reveals a positive impact of market growth on sales growth and is consistent with Greenley's (1995) results, implying that the environment is likely to condition the effectiveness of a market orientation.

It is worth noting that all our market orientation-performance results conflict with Greenley's (1995) empirical findings using a sample of UK companies comprising more than 5000 employees. Nevertheless, the author acknowledged that, because his data were gathered during a recession in the UK, some of the relationships may have been distorted, while some of the perceptions of some respondents may be different to those in normal trading environments. Moreover, recent research evidence indicates that *extra* large organisations are usually less market oriented than large firms due to difficulties with cross function coordination, inflexibility and rigid costs associated with fixed assets (Liu, 1996). These organisations can achieve satisfactory performance by utilising strategies such as global marketing or high levels of coordination to achieve economies of scale and this has a trade off with market orientation. Consequently, the impact of market orientation upon performance may be less significant in such firms.

Although market growth, competitive intensity, relative size, relative cost and relative product quality impact upon different performance dimensions, table 2 clearly indicates that market orientation is the only variable tested which has a significant and positive influence on all the three performance measures. Thus, despite the importance of environmental conditions on small business performance (Shama, 1993), our results support the suggestion that, by overemphasising these competitive influences, there is a danger of disregarding a firm's distinctive capabilities (e.g., market orientation culture) which can provide it with a sustainable competitive edge (Lado *et al*, 1992). This finding reinforces the need for small firms to consider the adoption of a customer and competitor orientation seriously because the business environment is becoming more competitive and sophisticated. Market orientation exerts a positive impact upon new product success, which has a potentially positive effect upon sales growth, and consequently, profitability in the sample of small firms investigated in this study.

Table 3 - Tests for Moderator Effects of Competitive Environment

Regression Coefficients (Standard Errors) - Partial Correlation Coefficients									
	<u>DV = New Product Success</u>			<u>DV = Sales Growth</u>			<u>DV - ROI</u>		
	Multiplicative Interaction	Subgroup Lo	Analysis Hi	Multiplicative Interaction	Subgroup Lo	Analysis Hi	Multiplicative Interaction	Subgroup Lo	Analysis Hi
Market Orientation vs. Performance									
H4 Market Turbulence	-.37 (.21)	0.31	0.25	-.34 (.22)	.17*	.24*	-.28 (.34)	0.21	.64***+
H5 Technological Turbulence	.37 (.22)	0.32	.34**	.28 (.11)	.45	.39*	.29 (.18)	.32*	.34
H6 Competitive Intensity	-.31 (.37)	.18	.58***+	-.24 (.41)	.18	.22*	-.31 (.21)	.23*	.19
H7 Market Growth	-.11 (.19)	.29*	.21	-.34 (.18)	.14	.43***+	-.34 (.18)	.28	.25

- * Coefficient significant at $p < .05$
- ** Coefficient significant at $p < .01$
- + Partial correlation coefficients different at $p < .05$

Moderators of the Market Orientation-Performance Relationship

In hypotheses 4 through 7, it was postulated that the influence of market orientation on performance is dependent upon levels of market turbulence, technological turbulence, competitive intensity and market growth. To examine the possible impact of moderator variables (hypotheses 2 to 5), a sub-group analysis was conducted (Arnold, 1982). First, following a ranking in ascending order of the *degree of market turbulence*, our scale was split at the median into two groups, one with low turbulence and the other with high turbulence. Second, we regressed performance on market orientation and seven control variables in the entire sample, permitting regression coefficients to assume different scores in the two sub-groups. The postulated moderating influences of technological turbulence, competitive intensity and market growth were tested in a similar manner by rearranging the samples using these variables in turn and repeating the analysis. Effects of these competitive environment variables on the relationships between market orientation and new product success, sales growth and ROI, respectively, are presented in Table 3.

The results reveal significant differences in partial correlation measures of market orientation between low and high environmental variable subgroups in three instances: (i) market turbulence when ROI is the dependent variable; (ii) competitive intensity with new product success as the dependent variable; and, (iii) market growth when sales growth is the dependent variable. Consequently, market turbulence, competitive intensity and market growth are likely to moderate the market orientation-performance association. However, there is no such influence in technologically turbulent conditions. Although these conclusions contradict studies (e.g., Jaworski and Kohli, 1993) which report that market orientation is required for superior performance in all environments, they lend credence to the findings that market orientation influences dimensions of business performance more strongly depending on competitive conditions (Diamantopoulos and Hart, 1993; Slater and Narver, 1994; Greenley, 1995).

Our results regarding the moderating effect of market turbulence on the market orientation-ROI relationship is neither consistent with those identified by Slater and Narver (1994) nor Greenley (1995) in their large firm studies. In line with expectations, the findings reveal that market orientation may be more relevant in highly turbulent market conditions.

Therefore, it seems that in such markets, successful small firms are those which tend to pay constant attention to rapidly changing market needs in order to satisfy customers. However, for small firms which are usually characterised by limited funds, it may be prudent to adopt incremental responses at very high levels of turbulence instead of instituting constant radical changes, because the costs involved in changing marketing operations can become disproportionately high, leading to a reduction in profits (Greenley, 1995).

Our finding that technological turbulence does not moderate the small business market orientation-performance relationship is neither consistent with Slater and Narver's (1994) nor Greenley's (1995) for large organisations. Thus, it appears that rapid technological changes do not affect the small firm market orientation-performance association. Probably, most small businesses are not affected to a great extent by such changes, hence, they maintain a consistent market orientation focus notwithstanding technological turbulence levels in the environment. Indeed many small firms may not have the resources to introduce constant radical changes to gain a competitive advantage even in industries with stable technologies.

Competitive intensity was identified as a moderating variable with new product success as a performance indicator. This is consistent with the results of Atuahene-Gima (1995) for large Australian firms but inconsistent with those of Slater and Narver (1994), who found no moderating effect. Diamantopoulos and Hart (1993) also established competitive intensity as a moderator but their performance measure was sales growth. It is likely that escalating competition may spur small firms to become innovative via new product development, new market pursuits and differentiated offerings in an effort to survive. Because such strategies are risky in highly competitive conditions, these firms are likely to maintain an increased market orientation focus in order to minimise uncertainty.

A moderating influence of market growth was found with sales growth as the performance measure. This is consistent with the conclusions of Slater and Narver (1994) and Diamantopoulos and Hart (1993) but inconsistent with Greenley's (1995). A further clarification is that our finding is in the same direction as the second authors' but opposite to that identified in the first study. Therefore, it seems that while some businesses will adopt more market oriented strategies in times of weak demand, it may well be that many small

businesses pursue cost or price cutting measures in order to neutralise the environmental pressures and primarily focus on survival. Thus, although a close eye will be kept on customers and the competition, caution will be exercised in the allocation of resources to market oriented activities because the main goal is to hold out during a difficult period. On the other hand, in a growing economy with strong demand, customers may have an abundance of alternatives to choose from and the marketplace is likely to be characterised by a proliferation of businesses. Consequently, small firms may be inclined to focus more on improving market oriented behaviours in order to maximise their performance in such favourable conditions. This is consistent with the observation that marketing spend generally tends to rise in sound environments, a notion which may be germane to many small businesses.

Conclusions and Implications

This research sought, firstly, to examine whether the market orientation-performance link established in large firm studies also holds in the small business context, and secondly, to explore the potential influences of market growth, competitive intensity, market and technological turbulence on any relationships identified. The findings from this sample of firms suggest that, generally, market orientation has an impact upon new product success, sales growth and profitability (ROI). More precisely, market orientation seems to exert a greater influence on: profitability in conditions of low market turbulence; sales growth in high growth markets; and, new product success in highly competitive environments.

The current study has provided a number of contributions to existing knowledge. First, it attempts to fill a void in the literature by investigating links between market orientation and performance among UK small businesses. In addition, we investigate the potential impact of environmental conditions upon the relationships examined. Consequently, further insight is provided into the postulated association between market orientation and performance in a different sector of another business culture. Such a framework responds to recent calls to study market orientation in diverse contexts to enhance our confidence in the concept and builds on previous efforts to extend the emerging knowledge of scholars regarding market orientation's effect upon performance in non US firms (see, e.g., Deshpande *et al*, 1993; Atuahene-Gima, 1995; Greenley, 1995). Although a small firm market orientation study has

been recently reported in the US (Pelham and Wilson, 1996), the current paper differs in respect of its investigation into the potential moderating influences of market growth, competitive intensity, market and technological turbulence on the market orientation-performance relationship. Finally, from a methodological perspective, this study drew upon theoretical concepts from a broad spectrum of literature to develop an adapted framework for the purpose of hypothesis testing. The findings provide important implications for both small business managers and academic researchers.

Implications for Small Business Managers

Our conclusions reinforce recent research findings in various countries, particularly the US, which indicate that market orientation is positively associated with business performance in large organisations (Narver and Slater, 1990; 1994; Ruekert, 1992; Jaworski and Kohli, 1993) as well as small businesses (Pelham and Wilson, 1996). Notwithstanding the evidence offered by these studies, research findings in both the US and UK have reported that the larger an organisation, the more difficult it is to implement market orientation (Narver and Slater, 1990; Liu, 1996). Thus, small businesses managers, who usually are able to instil market oriented values more smoothly, have a clear opportunity to utilise the implementation of market orientation as a vehicle to pursue a competitive advantage. It is also much easier for such managers to capitalise on the advantages of flexibility and simplicity (Feigenbaum and Kamani, 1991; Hewitt-Dundas, 1995) that such an organisational structure presents with that market orientation.

Small business managers should emphasise customer understanding and satisfaction as well as competitor orientation since this will enhance the level of market orientation, which in turn is expected to lead to improved performance. As market orientation results in increased sales, it is vital for managers to maintain the momentum through progressive investments as they seek to maintain a competitive edge over larger organisations in areas associated with market oriented behaviours. These include value added offerings for well selected customer segments, innovativeness and adaptability.

Market orientation is a distinctive form of business culture. Improving and sustaining a level of market orientation is not a simple process and it does involve significant

commitments in terms of time, training and expenditure. Thus, although environmental conditions have been found to influence the impact of market orientation upon performance, it is important to establish whether the environmental factors are enduring enough for it to be worthwhile for a small firm to *modify* its market orientation to suit them, given the intricacy of altering a culture. In addition, due to the possibility of lagged effects between market orientation and performance, it may be useful to plan market orientation strategy as a long term investment (Greenley, 1995), provided the small business manager can overcome the temptation and commercial pressures associated with achieving short term results. A market oriented firm's external orientation and emphasis on innovation will enable it to maintain a competitive edge as the environment changes. This perspective should enable the business to identify more opportunities in the marketplace compared to its competitors.

Clearly, market orientation appears to have a varying effect on different dimensions of small business performance. This indicates that a planned market orientation strategy may require the consideration of trade off settlements when establishing performance levels in corporate objectives. The identification of potential environmental influences on the market orientation-performance link among small businesses has further implications for managers. First, despite the seemingly greater strength of the relationship in conditions of low market turbulence, it may be that high market turbulence distorts the cost to sales ratio, which in turn reduces ROI, though this trend may be short lived. Nonetheless, as argued by Greenley (1995), when costs are spread over a longer period, long term profits should be enhanced, because a higher degree of market orientation is likely to facilitate effective market operations and practices. Second, due to the increased influence of high competitive intensity on the market orientation-new product success rate, a strong marketing culture is required for small firms to thrive in fiercely competitive environments. Such an orientation will enable the business to develop new products with a competitive edge, while providing a sound basis for the formulation of robust strategies to respond to competitors' actions during product launch. A further implication is that firms which are strongly market oriented in less competitive conditions are likely to improve in new product success when the environment turns hostile (Atuahene-Gima, 1995).

Third, the surprising identification of market growth's positive influence on the small business market orientation-performance link suggests that managers do not have to be complacent during a period of prosperity. Indeed this could be the time to maximise one's performance so that a firm can make up for the bad times. On the other hand, because a market orientation takes time to develop, it may be prudent for small firms to be market focused in low growth conditions - a proposition which is more consistent with conventional wisdom. Finally, notwithstanding the finding that technological turbulence does not moderate the impact of market orientation upon performance, it may still be important for small firm managers to maintain sound market oriented behaviours irrespective of the rate of change in technology. The significance of such a culture is borne out by our UK study as well as Pelham and Wilson's (1996) in the US which suggest that market orientation does appear to have a positive influence on small business performance.

Limitations and Research Implications

Considering the scant empirical research on the issues investigated and the limitations of this study, the aforementioned findings must be viewed as tentative. The first limitation is that due to the cross-sectional approach adopted, our conclusions are restricted to those of association, not causation. Probable causal implications could be strengthened by developing and utilising a time series database in subsequent studies. Second, this research was exploratory in nature and specifically focused on market orientation versus performance, and effects of market growth, competitive intensity, market and technological turbulence on the relationship, rather than to determine the best predictors of performance for the sampled firms. However, since the levels of performance and market orientation in a small business may be influenced by a number of internal organisational factors, it is suggested that integrated models with additional organisational variables such as firm structure, coordination, control systems, age, management characteristics, etc. are utilised in future research in order to test for possible effects of these factors on market orientation and performance in the small business sector.

Third, due to the multi-industry, nationwide nature of this study, inter-industry and regional differences were not accounted for. In this context, a worthy area of investigation may be to test for differences in the relationships between market orientation and various organisational variables in regional or industry specific conditions. Fourth, it must be noted

that the data generated in this study were based on managing directors' subjective views of the individual items evaluated. Such assessments are prone to judgement and bias errors, and thus, future studies could adopt data collection methods based on multiple interviews and indepth case studies. Fifth, the context of this study (UK) places constraints on the generalisability of our findings to small businesses in other national cultures. Nevertheless, the utilisation of a country other than the US does provide additional insight into the applicability of market orientation in other national contexts. Finally, replication of this study is required to increase confidence in the findings presented here. Such efforts may build upon our evidence by exploring improvements in the following areas: construct measurements; inclusion of internal as well as external moderators; and, use of different performance measures. Replications in other national cultures would offer an important contribution to existing knowledge and help to increase our understanding of the global significance of the market orientation concept.

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CHAPTER 7

Marketing in a Liberalised Developing Economy: Emerging Trends and Implications for Strategy, 1998, Journal of Management Studies, volume 14, number 1, pp 21-35.

Abstract

Over the past decade, considerable attention has been focused on marketing in emerging economies. An increasing number of managers and researchers of development have suggested that one serious problem relating to economic development in the Third World is that scant attention has, so far, been given to the opportunities and problems associated with marketing. Following a review of the current economic trends in emerging nations, this article discusses the significance of marketing within the macro and micro contexts of business environments in a typical liberalised economy. The paper provides a background to changes taking place within the market environments of emerging nations which have instituted policies to liberalise their economies, with a focus on Ghana which was one of the first African countries to subscribe to the IMF/World Bank structural adjustment programme. In the context of developing countries, the relevance of marketing is highlighted, followed by the evolution of marketing systems and marketing organisations. Furthermore, a number of areas in which effective marketing strategies are gaining increased importance in Ghana's evolving marketplace are identified, and finally, the implications of the changing environment for business practitioners are addressed.

Introduction

Following the liberalisation and restructuring of many Third World economies and increased interdependence of the world's markets, the past decade has witnessed a growing interest in the role of marketing in developing countries. There is a wealth of extant literature on the subject with articles, editions of scholarly journals and entire books dedicated to marketing in developing countries (Okoroafo and Russow, 1993). A broad spectrum of areas has been covered by the literature, including the relevance of marketing in developing countries, the link between marketing and economic development, organisation of the marketing function by firms in developing countries and comparative marketing systems (Maholtra, 1986). Furthermore, there is a plethora of research dedicated to marketing research in the Third World (Yavas, 1983), efforts of multi-national organisations in developing countries (Keegan, 1984),

and transfer of marketing technology to the Third World (Cavusgil and Yavas, 1984).

The role of marketing within organisations is becoming increasingly important for the survival and sustained growth of modern day businesses, primarily due to increased competition in the marketplace. Given the importance of, and interest in the marketing concept in developing countries, the aim of this article is to examine the impact of economic restructuring in the Third World upon the marketing function and its relevance in a typical emerging nation.

During the last decade, many developing countries were beneficiaries of a Structural Adjustment Programme (SAP) set up under the auspices of the International Monetary Fund (IMF). The SAP comprises reforms in fiscal, monetary, exchange rate policies, trade liberalisation, privatisation, rationalisation and restructuring of public enterprises. The recipient countries, including Ghana, Gambia, Nigeria, Sierra Leone and Zambia in Africa, as well as Chile, Argentina, Mexico and Venezuela in South America, subscribed to the structural adjustment facility of the IMF in return for instituting specific economic policies devised to liberalise their economies. These programmes were facilitated by borrowing funds from the IMF in order to embark on radical economic reforms. The reform policies have significantly transformed the business environments of the majority of adopting countries.

Whereas, some initial consequences of the economic recovery programme (e.g. levels of inflation and interest rates) have been fiercely criticised by sceptics of the IMF's policies, advocates argue that the ascendancy of the newly industrialised Far-East Asian economies such as Singapore and South Korea, is proof of the efficacy of free market policies (Miller, 1989). For instance, an investigation into fund flows, export proceeds and terms of trade indicated improvements since the SAP was instituted, in comparison with the preceding 15 to 20 years (Humphreys and Yaeger, 1990). Evidence of the popularity of the SAP in Africa is affirmed by IMF reports that by 1989, roughly 50% of sub-Sahara Africa had embraced macro economic and structural reforms which comprised fiscal, and monetary policies, public sector restructuring and improvement in food production (IMF, 1989).

In spite of evidence that countries which subscribed to the SAP have realised enhanced performance at the macroeconomic level, there is limited evidence of the effects of such reforms on business practices at the micro or firm level. This paper focuses on Ghana, which has been hailed as one of the greatest beneficiaries of the IMF's SAP. Five sections follow this introduction. Firstly, a background to the Ghana study is presented, and secondly, the importance of marketing in developing countries is highlighted. Next, the characteristics of marketing practices as well as the evolution of marketing in a typical Third World business environment are explored. This is followed by a discussion of the changing role of marketing in Ghana's new and evolving marketplace. The final section addresses the implications of the conclusions for practising managers and policy makers.

Background to the Study

Ghana, which has a population of 15.6m, a GDP of \$5906 and a GNP of \$7117 (1993), has been cited by the World Bank and IMF as a role model of success in the Third World (West Africa, 1995). This is due to the growth rates that have been realised by pursuing the SAP and the consequent fostering of a free market economy. Like many other developing countries undergoing transformation, Ghana has sought to improve its economy through an Economic Recovery Programme (ERP). This process commenced in 1983 and consisted of policy reforms aimed at expanding private business initiatives, particularly from the export oriented sector. The reforms which have had the greatest effect on the marketplace are highlighted in the following section.

First, reforms in foreign exchange policies were instituted to reflect the real value of the currency (cedi) and make the availability of foreign currencies more widespread. For several decades Ghana, like many other developing countries, was opposed to the use of market forces as a means of determining the value of her currency. Government officials argued that currency flotation would lead to high inflation in the economy since a continuous depreciation would result in increased prices for imported commodities (Gillespie and Alden, 1989). Consequently, Ghana's currency was fixed on the basis of those of the world's economic powers. This false pegging, instituted through a number of foreign exchange mechanisms and designed to restrain local demand for foreign currency, led instead to overvalued currencies (Okoroafo and Kotabe, 1993). However, in consenting to the

implementation of the IMF's SAP, the cedi was floated, resulting in a significant decline in value compared with other major world currencies. Whereas formerly foreign exchange could only be purchased through the Bank of Ghana, currencies can now be obtained from banks or authorised dealers at openly published rates.

Second, investment reforms were introduced to boost investments. A wide range of incentives was instituted to attract foreign investors into the country. Central to this reform was the establishment of the Ghana Investment Promotion Centre (GIPC) to provide assistance to would-be investors. This organisation is responsible for dealing with applications and ensuring that documents are sent to the relevant authorities for approval. This centralised system for handling investment applications helps to expedite the whole process. Incentives such as low taxation policies were instituted to encourage potential entrepreneurs. The GIPC offers information on the legal, regulatory and procedural guidelines for setting up a business in Ghana.

Third, trade policies were reformed to liberalise trade and promote exports. Before 1983, tariff and non-tariff controls formed part of the economic policy of Ghana. In order to preserve foreign exchange, exorbitant tariff rates were fixed for imported commodities considered as non-essential to economic development. Quotas were frequently applied to curb imports to their lowest possible levels. Most of these trade barriers have now been removed. There are minimal restrictions on the requirement for import licences, while bans have been lifted on the freedom to export many goods. This is typical of other countries which have adopted the SAP such as Nigeria where licensing requirements for all imports have been abolished, except for basic food items, vegetables, fresh fruit and eggs. In addition, antiques and works of art can be imported (Okoroafo and Kotabe, 1993).

The Relevance of Marketing in a Developing Country

Notwithstanding the continued adoption and application of marketing in developing nations, there is a debate concerning the applicability of marketing to the Third World. Inherent in this debate are two schools of thought. One viewpoint is that the marketing concept is not applicable in the developing world because the principles and techniques are based on the tenets of buyers' markets (markets where supply of goods and services is much greater than

demand), whereas the vast majority of developing nations are characterised by sellers' economies (markets where supply of goods and services is far less than demand). It is contended that the marketing concept *has been essentially a tool of developed countries, a means by which the products of buyers' market economies are marketed, a discipline of domestic marketing theory that has been extended minimally to foreign situations. It is not a discipline of globally accepted principles that may be applied to a subset of national economies* (Bartels, 1983) and also, while the basic marketing concept is based on the premise that managers have full control over the components of the marketing mix, such a premise does not hold in developing economies.

The opposing view is that, the concepts and techniques of marketing are applicable in the Third World but lack of adequate marketing knowledge and shortage of marketing expertise are perceived as barriers to the applicability of the discipline (Kaynak and Hudanah, 1987). In fact, several academics and practitioners of development have purported that the one main problem in economic development of Third World nations is that little emphasis has, so far, been given to issues concerning the shortcomings and opportunities of marketing (Mittendorf, 1982). Evidently, marketing as carried out in developed countries, with a focus on inducing new needs and wants may not be of prime concern in the poorer developing countries (Keegan, 1984). However, the marketing concept is more than a quest for new needs and wants, it is basically a framework of analyses, tools and skills which provides executives with the ability to match organisational resources and competencies to the needs of society (Maholtra, 1986). Hence, the marketing discipline can be effectively employed in an effort to meet the needs of the developing world. For example, it is held that marketing principles can be utilised to tackle a range of pressing issues in less-developed countries such as improving literacy, upgrading the quality of life and supporting small businesses (Cavusgil, Amine and Vitale, 1983). In arguing against the value of marketing practices and the activities of middlemen in developing nations, high gross profit margins are often cited as evidence of the inefficiency of marketing intermediaries. Nonetheless, little attention is given to the link between higher margins and risks in the channels of the distribution system, or to the point that low volumes require higher margins to break even. Against the background of the above debate, various researchers have examined the extent of use of marketing tools in developing nations. Evidence from Akaah and Riordan's (1988) study suggests that the degree of

incidence and regularity of implementation of marketing principles is on the rise, and hence, they conclude that the marketing concept is applicable in developing countries. Nevertheless, the authors observe that the applicability of marketing concepts and techniques might be contingent upon country and corporate specific factors.

Marketing Activities in a Typical Developing Nation

A number of factors have been identified as variables which hamper the implementation of marketing practices in most developing countries. These include problems relating to the political, governmental, legal, economic and socio-cultural environments. For example, typical features of the political environment include bureaucracy, tight controls, complicated licensing procedures, import restrictions and higher taxes. An additional variable is the governmental environment with emphasis on public policy, regulatory agencies, government incentives and penalties, and investment in state-controlled enterprises (Maholtra, 1986).

In general, factors such as political instability and frequent changes in business laws, rigid trade barriers, high inflation rates, poor growth, inadequate communications, sub-standard infrastructure and high political risk act as barriers to development. Moreover, the market environment is characterised by sellers' market economies. In government circles, the view held by policy makers and planners is that a shortage of goods and services is the major problem of Third World countries and that the solution lies in increased production. In such an environment the implementation of marketing practices is considerably hindered. This is due to the fact that goods are manufactured and sold irrespective of their suitability to customer needs, while prices are fixed on the basis of government regulations. Generally, promotion and market research activities are difficult to carry out in many Third World nations since *all disclosure of information to the public is rigidly monitored* (Sadri and Williamson, 1989). In firms, greater emphasis is placed on manufacturing and production than marketing. The marketing discipline is perceived as a quasi-parasitic activity which is not beneficial in the overall economic development programme of a Third World country. Perhaps this problem has developed over a period of time, partly due to the fact that resented expatriates in less-developed countries have often worked in the marketing sectors of developing economies, perceived as immensely profitable areas. The *economy of scarcity* conditions

which characterise the market environment requires and fosters increased emphasis on manufacturing and production.

In many developing countries, one of the most formidable barriers to implementing the marketing concept and, indeed, to economic advancement is the negative attitude of the general public towards marketing and middlemen. For example, a significant number of sections among the population of such countries do not understand the economic benefits that marketing activities can generate. Middlemen are looked upon with disdain, because intermediaries are perceived as manipulators who attempt to gain at the expense of the general public. To make matters worse, marketing education receives little attention in academic circles. A focus on the traditional professions and conventional social science courses has produced business managers who have little appreciation of the significance of marketing's role within the firm. As such, sales activities are regarded as peripheral functions of debatable value, whereas manufacturing and engineering have attracted a higher profile amongst the public (Yavas and Rowntree, 1980). Further, less-developed nations usually exhibit a *dual economy* - a situation where a few cities are characterised by a style of living that is considerably different from the rest of the population. Another distinct feature is the highly skewed income distribution, on either a personal or geographic basis. These peculiar characteristics in the business environments of developing countries pose challenges to organisations in their efforts to pursue nationwide distribution strategies. This is because the overall market comprises many segments and this calls for different marketing approaches at considerably different levels of sophistication (Ross and McTavish, 1985).

Evolution of Marketing Systems and Marketing Organisation

Five stages of marketing evolution are categorised at different levels of the economic development process in the pertinent literature (Kaynak and Hudanah, 1987). This sequence ranges from primitive practices in the most backward economy to the stage where it is acknowledged that high levels of economic activities can only be achieved with high levels of marketing activities. Marketing organisation in businesses usually evolve over a period of time. The concepts of modern marketing management and organisation were not known by commercial, manufacturing or industrial firms in the early times. During these periods, there was no distinction between marketing and other executive functions due to the fact that

marketing had not evolved as a different functional unit within the firm. The five phases of development which represent the evolution of marketing practices at different levels of the economic and marketing development of an emerging nation, range from a preliminary stage, where marketing is perceived as a selling activity to a contemporary perspective where all short-term organisational policies are guided by marketing. The five stages are described below and also exhibited in Figure 1.

Phase 1 consists of small firms characterised by a general manager, relatively few employees, no clear-cut functions separated from others, i.e. production, financing and personnel are all functions performed by the owner of the firms. Marketing does not exist at this stage in its contemporary sense, but the element of selling is the most obvious, and used among the other marketing elements. Generally the manager of the firm takes all the decisions except the technical ones mainly involving production techniques.

Phase 2 consists of firms at this stage which tend to have established departments for the basic functions such as production, personnel, finance, purchasing and selling. The post of marketing manager is not yet recognised as a basic function, but the first sign of organising marketing activities takes the form of a sales department in which the sales manager is responsible for the field sales force; most other marketing activities are either still held by the general manager or are spread throughout the firm.

Marketing therefore does not mean much other than selling in the first two stages described above.

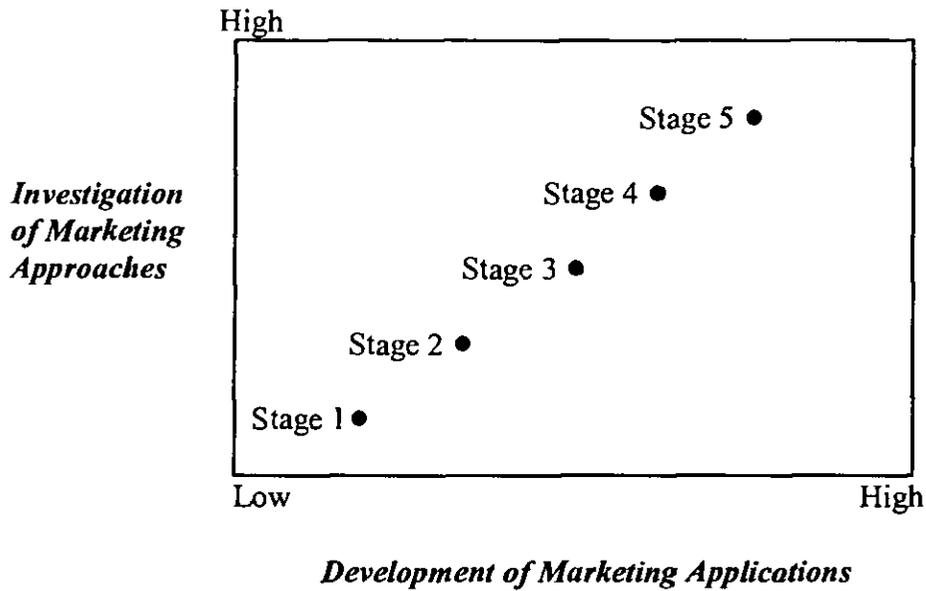
Phase 3 includes as a further development, due to expanding production, the firms which, at this stage, start encountering marketing problems, i.e., more difficulties in selling their products. They become aware of the importance of grouping all their marketing activities under one marketing executive who is still called the sales manager. The sales manager at this stage has little influence on production planning, packaging or new product development. These functions are still within the span of the production manager.

Phase 4 shows the first sign of market orientation emerging, with the establishment and full recognition of a marketing department. The marketing manager takes over all the marketing activities in a fully integrated way. Other divisions attached to the marketing department, such as advertising, selling and new product development divisions are established within marketing management. Aspects such as production planning, inventory control and transportation are also influenced by the chief marketing executive. In some cases the chief marketing executive exercises wider influence over the entire organisation of the firm. Long-term company policies are conditioned by marketing.

Phase 5 is one where management of firms realises what marketing orientation promises for the fulfilment of overall corporate objectives, and thus marketing becomes the basic driving force for the entire firm. Both short and long-term policies of firms become highly conditioned by marketing philosophy. This stage is hardly represented on an organisational chart as the dimensions of the new marketing concept expand beyond the boundaries of the marketing management within the firm. This stage is reached when the attitudes of all company executives reflect the marketing concept. A few firms have reached fully this stage of marketing maturation in the emerging nations.

Source: Kaynak and Hudanah (1987)

Figure 1: Stages of Marketing Development



Obviously, these phases of evolution do not suggest that there is only one series of steps through which all businesses must pass in undertaking marketing activities. There are overlaps between the phases and the categorisation is, therefore, a scale used to classify different levels of sophistication in performing a number of marketing management functions.

In emerging nations such as Ghana, only a small number of firms would have reached phases 3 and 4. The majority of firms, which are small businesses, are likely to be at stages 1 and 2. The vital issues here, nonetheless, are whether firms are progressing upwards through the phases and where start-up firms tend to begin along the scale before developing further. Three factors identified by Kaynak and Hudanah (1987) as important influences on an organisation's marketing development process through the five phases, are all typical of Ghana's current economic climate. As a result of the liberalisation of the economy, there are three main influences on marketing development among Ghanaian firms. Firstly, there is a growing impetus among scholars and practitioners to broaden the marketing concept. Secondly, the encouragement of innovation and entrepreneurship has resulted in the need to modernise production processes. Thirdly, the abundance of a variety of goods on the market has led to difficulties in selling.

The consequence of these factors is that existing firms will have to become more market oriented in order to survive or sustain competitive advantage. A related effect of this scenario is that new firms are likely to start on a higher level of the scale before developing further. This is due to the fact that the overall level of market orientation in the business environment is likely to be pitched fairly high in the evolving buyers' market and hence, new firms will have to operate at a reasonably high level of market orientation in order to survive and remain competitive.

Marketing Strategies in Ghana's Transition Economy

Prior to the introduction of reform programmes, marketing decisions were made in a marketplace characterised by minimal competition. Government agencies had the monopoly of making decisions in a sellers' economy. The environment was still dominated by the production or product era where goods were manufactured for customers who had no choice but to buy them due to lack of alternatives. Like many developing nations, the marketing concept might have been accepted in theory, but hardly put into practice (Mitchell and Agenmonmen, 1984). The changes in the business environment are bound to transform hitherto centralised economies into free markets, where several producers strive for the custom of prospective buyers. Due to the new shift towards a fiercely competitive marketplace, this decade is witnessing a different approach to the marketing concept, with the customer as the focus of marketing activities. Consequently, it has become imperative for firms to adopt different marketing practices because as customer needs and expectations evolve and grow over time, it will be the responsibility of marketers to deliver consistently high quality, value for money products and services. These sentiments are reinforced by Dadzie, Akaah and Riordan's (1988) study which indicates increased utilisation of marketing principles in Ghana's evolving buyers' economy with modest levels of control in the business environment.

Product/service quality, modification of existing products and new product success are becoming vital in developing a competitive advantage. Modified and new products/services are assuming importance for realising long-term viability, while the successful execution of a quality management strategy and the provision of better services to customers are becoming critical to performance enhancement (Jacobson and Aaker, 1987). Moreover, advanced manufacturing processes should assist firms to improve performance. Pricing techniques will

play a crucial role in boosting performance and though, the choice of strategy will depend on organisational objectives, it is vital for products to be priced competitively. Costs need to be streamlined in order for firms to remain competitive. Hence, cutbacks in terms of employees and subsidiaries have become quite common as organisations seek to become more competitive. The implementation of effective customer focused promotions is also important, and thus, promotional tools need to utilise strategies relating to product offerings, pricing, consumer behaviour and distribution. Consequently, it is not surprising to note that currently, promotional efforts are very much on the increase in Ghana. Further, there is a need to investigate alternative means of delivering products to customers more efficiently. This might call for joint efforts with distributors and suppliers as well as efficient administration of logistical functions such as sourcing, inventory and transport (Okoroafo and Russow, 1993). Other issues which require attention include effective marketing research and appropriate strategic choices (Austin, 1990). This may be due to the fact that in turbulent conditions, businesses focus attention on decentralisation and their strategic marketing planning efforts tend to assume higher levels of comprehensiveness and long-term orientation. The likelihood is that such an approach to planning will result in enhanced organisational performance (Welge and Kenter, 1988).

Organisations tend to diversify their activities (Johnson and Thomas, 1987), or alternatively, attempt to gain control of their marketplace in order to be able to handle the uncertainty. In their efforts to assume control within the business environment, two significant areas which firms usually devote attention to are their relationships with suppliers and distributors (Porter, 1985). Moreover, new overseas markets are explored in an attempt to broaden their options and expand their customer base. Organisations with overseas headquarters capitalise on transfer pricing to enhance performance (Al-Eryani, Alam and Akhter, 1990) via reduced taxation incentives or competitive pricing. In a competitive business environment, firms will have to undertake extensive research to acquire information required to facilitate strategic marketing decision making. In turbulent conditions, it is vital that essential information is readily available to key decision makers during the decision making process.

Summary and Implications

Findings from Ross and McTavish's (1985) study indicates that there is an association between the GNP of developing countries and performance of marketing activities. Marketing academics in very poor developing markets perceive marketing principles as being less applicable than their counterparts in richer countries. This suggests that the richer a nation becomes the greater the likelihood of performance of marketing activities by firms.

A recent empirical examination of the impact of the IMF's structural adjustment programme on business performance concluded with suggestions which are equally applicable to Ghana (Okoroafo and Russow, 1993). Hence, it would be important to improve product quality with regard to durability, reliability, performance etc. in order to differentiate a firm from its competitors. Pursuing a strategy of offering better value in the marketplace will enable firms to gain a competitive edge, due to the severity of conditions in Ghana's business environment. For instance, Okoroafo and Kotabe (1993) note that in an attempt to achieve a reputation for quality, Japanese car manufacturers have improved the durability of car bodies, fitted them with more resistant shock absorbers, and made them more economical to run. Similar to the case of Nigeria, detergent manufacturers such as Lever Brothers (Ghana) Ltd have conducted a series of marketing research activities in order to improve the effectiveness and durability of their soap. In the short term, research efforts may place emphasis on incremental improvements and modifications because in a turbulent environment, changing customer needs require major changes in marketing operations if growth in performance is to be achieved. However, many firms may not be able to afford the costs involved in changing marketing operations. Given the possibility of lagged effects between improved marketing strategies and performance, significant innovation strategies should be planned as a long-term investment, similar to that of capital investment. This may include research efforts and joint programmes with reputable research and development establishments. Promotional strategies will focus on differentiating a firm's offerings from those of the competition, with a message based on informing the customer about benefits such as reliability, performance, longevity or value for money.

Notwithstanding the current transformation in Ghana's business environment, the market is yet to achieve the full status of a buyers' economy. Hence, like many emerging

nations, though the marketing concept has been accepted in principle, there are still difficulties with respect to its implementation and consequently, customer service still appears to be in its embryonic stages. Nonetheless, customer care is likely to assume a crucial role in the medium to long term, particularly as competition intensifies as a result of the entry of more firms into the market.

An issue of significance from Okoroafo and Kotabe's (1993) study on Nigeria was the identification of a positive relationship between several market variables and performance. These include growth in sources for mobilising investment funds, elimination of exchange and profit remittance controls, active foreign exchange market and improved transportation systems. The authors contend that in order to promote an emerging nation successfully as a lucrative market for foreign entrepreneurs, policy makers have to sustain the on-going changes in the financial, communications and transportation sectors. In the same vein, government officials need to maintain the current momentum of marketing the attractiveness of Ghana's market to potential foreign investors and Ghanaian entrepreneurs living abroad. Moreover, as a result of problems caused by fierce competition from imported products, key decision makers need to assist domestic enterprises by making funds available for the purposes of research and development as well as capital investment.

Evidence from Akaah and Riordan's (1988) clearly reveals that the significance of marketing as an organisational function determines the extent to which marketing principles are practised. In other words, the greater the perception of the relative significance of marketing as a function, the higher the prospects of marketing practices being deemed applicable. Therefore, it is expected that more attention will be devoted to market oriented activities as the perception of the importance of marketing's functional role in an organisation increases. Finally, the progressive rise in Ghana's GNP, coupled with the growing shift from a sellers' market to a buyers' market and from an economy of central command to a free market economy, should lead to an increased emphasis on market oriented behaviours.

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CHAPTER 8

Business Strategy, Organizational Culture and Market Orientation: Empirical Evidence From a Liberalized Developing Economy

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Abstract

This study investigates the impact of the Structural Adjustment Program (SAP) on business practices in an emerging African country. The research instrument was based on constructs of business strategy, organizational culture and market orientation. Compilation of the research data was achieved through in-depth interviews and a self-administered mail survey. The findings provide evidence of a positive influence of SAP-induced strategies and certain culture types on the level of firm market orientation. The paper concludes with a discussion on management implications as well as directions for future research.

Introduction

After many years of stagnant economic growth rates, high debt burdens and diminishing investment flows, the last decade has witnessed an increase in the number of developing countries which have subscribed to the International Monetary Fund (IMF) and the World Bank's structural adjustment program (SAP). The remit of the SAP is to ensure a more stable foreign exchange, reduce trade and investment restrictions, initiate tax reforms, improve agricultural output, rationalize state controlled enterprises and assist expansion in the private sector. These economic reforms have focused on an extensive reorientation of the productive sectors through a restoration of fiscal and financial discipline. Basically, the program is a macro governmental objective used by countries which want to pursue an open market economy and nurture a competitive atmosphere amongst businesses, with the purpose of controlling inflation and enhancing economic growth (Masten and Brown, 1995).

Advocates of free market economies argue that developing countries, irrespective of their level of development and industrial capability, should liberalize their macro economic regimes in order to expand production and exports, and thus, promote their economic development (Shafaeddin, 1990). There is evidence to suggest that the reform programs

currently being instituted in certain developing countries have significantly impacted upon the economies of those nations (IMF, 1989, 1993). The efforts being made to renovate the country's infrastructure in order to attract investments from both internal and external entrepreneurs as well as foreign institutions including the IMF and World Bank (see USA and Ghana, 1996/97), appear to have borne fruit. A report by USA and Ghana (ibid) indicates that the Ghana Investment Promotion Council (GIPC) recorded some 356 new projects between September 1994 and December 1996, adding that there is currently a growing body of literature that notes the successes of macro-economic growth in sub-Saharan Africa in recent years. In fact, according to the IMF (1993), the 15 African countries pursuing structural adjustment programs have improved their growth, inflation performance and market orientation. These findings are supported by Shafaeddin (1994) who notes that *in terms of import liberalization, achievement has been impressive in many least developed countries, particularly in Africa*. Furthermore, recent empirical research findings suggest that there are links between the success of the adoption of the SAP and marketing practices of firms (e.g., Okoroafo and Kotabe, 1993).

However, in spite of the reported improvement in the macro economic performance indicators of some developing countries, a number of reports have expressed concern about the negative effects of the implementation of the SAP (see, for example, Ghana Review International, November 24, 1995). These include consequences such as massive redundancies and the growth of deprivation for the vast majority of ordinary people. For instance, under the present SAP in Ghana *aggregate levels of public spending on health and education have generally been regressive in absolute terms such that, less goes to the poor and more to the rich* (Ghana Review International, December 15, 1995, p.13). This is evidenced in the work of Masten and Brown (1995), who contend that privatization initiatives, one of the hallmarks of the SAP, may actually reduce industrialization in Ghana. The authors further note that donor support of private associations and enterprises may, in the long run, lead to a dependency relationship.

Nevertheless, there is little doubt that the ongoing changes have radically transformed the business environments of Ghana and other adopting countries (see Appendix 1). Although marketing systems in developing nations have been neglected and are not fully developed

(Okoroafo and Russow, 1993), the impact of the SAP on such economies has not been fully researched in terms of the policies' effect on the development of market oriented deliberations by firms operating in these markets. For instance, although Ghana's SAP (or the Economic Recovery Program) has been in place since 1983, the few marketing-related studies on firms operating in Ghana have generally been based on the applicability of marketing activities (Dadzie *et al.*, 1988), the impact of marketing decisions upon performance (Okoroafo and Torkornoo, 1995) or effects of the SAP on marketing practices (Blankson and Appiah-Adu, 1996). This research builds on previous studies by investigating the extent to which business strategies and organizational (corporate) culture prevalent in Ghana's current economic climate are associated with market orientation.

Literature Review

Background to the Study

In most African countries, the period after independence was characterized by attempts to leap directly to a modern industrial structure through public investment in large sized industries, with the government often spearheading these efforts due to the shortage of strong indigenous entrepreneurial skills. However, mismanagement led to excess capacity and many organizations were unable to survive without substantial subsidies or government protection. Ghana's economy deteriorated during the late 1970s and early 1980s resulting in foreign exchange scarcities, which curtailed production in its large industrial sectors. Between 1978 and 1982, capacity utilization declined from 40% to 21%. Many enterprises were adversely affected by the economic crisis, and thus, notwithstanding the protective measures instituted by public policy in state-owned corporations, large private firms recorded in Ghana's industrial statistics trimmed employment by a third during this period (Republic of Ghana, 1989).

Ghana adopted the SAP in 1983 with the purpose of addressing some of the problems that had given rise to its lengthy economic decline. Since then the SAP's key policies have had a marked effect on the markets of different industries. For instance, bolstered by adjustment lending, import liberalization increased access to previously restricted inputs, but also broadened competition from imported goods. Substantial realignment of the overvalued currency through the exchange rate mechanism created new opportunities for export and import substitution. Price liberalization allowed firms to pass through higher costs,

particularly in sectors characterized by strong demand, moderate levels of competition and high entry barriers. Firm level data indicates that the adjustment process is well under way across industries and within organizations and that new investment is taking place (Steel and Webster, 1992).

Pre-SAP Business and Marketing Strategies in Developing Countries

Due to environmental conditions characterized by strict trade barriers, poor economic growth, political instability and inadequate infrastructure, most developing nations such as Ghana, were not attractive for direct investments (Greene and Villanueva, 1990). For example, a study of many *Fortune 500* firms revealed that issues such as soaring inflation, government red tape, poor communications and changing business regulations acted as barriers to investments in the Third World (Elsaid and El-Hennawi, 1982). Moreover, others have described the markets of developing nations as sellers' economies and basically oligopolistic (Sadri and Williamson, 1989).

At the micro level, market oriented activities in these conditions were minimal and highly inhibited (Samli and Kaynak, 1984; Tibesar and White, 1990). This was attributed to the fact that goods and services were produced and sold regardless of compatibility with customer needs. Marketing intelligence and promotional activities were onerous to undertake as the transmission of all information to the general public was rigorously vetted (e.g., Sadri and Williamson, 1989) and pricing of goods was generally contingent upon government regulations. Hence, despite the affirmation given to the marketing concept in theory, its application in many firms was limited.

Business and Marketing Strategies in Emerging Economies

The description of developing economies as oligopolistic and a sellers' market (Sadri and Williamson, 1989; Okoroafo and Russow, 1993) is taken up by Okoroafo and Torkomoo (1995) who argue that the constrained marketing practices in the old environment identified by Samli and Kaynak (1984) and Tibesar and White (1990), may not be applicable in a transitional economy. The gradual shift to a buyers' economy is leading to markets in which producers, irrespective of their country of origin compete for the attention of customers, and thus, marketing strategies are being developed by firms in order to remain competitive in the

marketplace. In fact according to Cuthbert (1996), new forms of marketing and management theory are beginning to emerge in Asia and other developing economies through the modification of Western marketing techniques and adaptation of these tools to suit their own culture. Recent research findings by Steel and Webster (1992) on the response of small businesses to reform in Ghana indicate that these enterprises are becoming more innovative in order to survive, particularly in conditions marked by weak demand, low-cost competing imports and rising operating costs. As the economies continue to grow and develop market and competitive structures, customer needs and expectations will likewise evolve and grow over time, resulting in strategies that are based on customer satisfaction.

Market Orientation

A market oriented firm is one which successfully applies the marketing concept (McCarthy and Perreault, 1984; Pitt *et al.*, 1996). The term *market oriented* is preferred to *marketing oriented* because the former expression highlights an entire organization-wide application whereas the latter phrase tends to describe activities that are specific to the marketing department (Kohli and Jaworski, 1990; Narver and Slater, 1990; Gabel, 1995). In recent years the increased interest in market orientation and what it involves has led several writers to contribute to its operational definition as a construct. The majority of researchers have often derived their definitions from the conceptualizations of Kohli and Jaworski (1990) and Narver and Salter (1990).

Kohli and Jaworski (1990) describe market orientation as the implementation of the marketing concept. Comparing three core elements of market orientation as a philosophy (customer focus, coordinated marketing, profitability) to the perceptions of marketing practitioners, they concluded that market orientation consists of three components: *the organization-wide generation of market intelligence pertaining to current and future customer needs; dissemination of the intelligence across departments; and, organization-wide responsiveness to this market intelligence.*

Narver and Slater (1990) propose that market orientation comprises three components, namely: *customer orientation - a sufficient understanding of target buyers, so that continuous superior value can be created for them; competitor orientation - understanding short-term*

strengths and weaknesses and long-term capabilities of both current and potential competitors; and, interfunctional coordination - the coordinated utilization of company-wide resources for creating superior value for customers.

A common feature of both conceptualizations is that market orientation is based on behavioral concepts. These issues have been addressed by several scholars. For instance, Deshpande and Webster (1989) suggest that market orientation is a set of cultural attitudes which are concerned with developing and enhancing value to customers. It is argued that market orientation is all about implementation (Kohli and Jaworski, 1990) and since culture is *the way things are done*, market orientation, as part of corporate culture, should be pervasive throughout the organization. In fact, there has been a strong proposition for the adoption of a management approach based on market orientation throughout the firm (Gronroos, 1989; Slater and Narver, 1995).

Organizational Culture

According to Deshpande and Webster (1989) corporate (organizational) culture is concerned with the patterns of shared values and beliefs that help individuals understand organizational functioning, and thus, provides them with norms for behavior in the firm. The importance of corporate culture as an organizational variable is embedded in the fact that it serves as the critical element which management might utilize in shaping the direction of their firms (Smircich, 1983) due to the influence it has on the way in which organizations adapt to external pressures in the marketing environment. Corporate culture can serve as a tool to improve productivity and if properly communicated, culture can be used to encourage all employees to subscribe to organizational goals (Deal and Kennedy, 1982; Wilkins and Ouchi, 1983). Furthermore, it has been found that a strong marketing culture has a positive link with marketing effectiveness (Webster, 1995) and firm profitability (Webster, 1993).

Drawing upon Smircich's (1983) conceptualization, Deshpande and Webster (1989) discussed five different theoretical frameworks for examining culture. The most developed among these paradigms - organizational cognition, is based on management information processing and perceives organizations as knowledge systems. Webster and Deshpande (1990) shed light on the significance of this information processing viewpoint to the

understanding of organizational culture by discussing Quinn and Rohrbaugh's (1983) concept of *competing values* which demonstrate that clusters of values replicate the dimensions proposed by Jung (1923) to represent psychological archetypes. Based on Quinn (1988) and Cameron and Freeman (1991), Deshpande *et al.* (1993) illustrate the four classifications of culture which the *competing values* model proposes (see Figure 2). These are: shared beliefs relating to overall strategic emphases; corporate bonding; leadership styles; and, dominant attributes in an organization.

In Appendix 2, the horizontal axis represents *internal maintenance* (integration, smoothing operations) or *external positioning* (environmental differentiation, competition). The vertical axis represents processes which are *mechanistic* (stability, order, control) or *organic* (spontaneity, flexibility, individuality). This conceptualization results in four main types of culture, namely: market; adhocracy; hierarchy; and, clan.

Hypotheses

Market Orientation and Strategies in a Transitional Economy

An organization's success in a dynamic business environment is more dependent on an adaptation to changing and evolving customer needs. According to Kohli and Jaworski (1990), in a stable marketplace, with a fixed set of customers whose preferences are stable, few changes to a marketing mix are required to serve these customers, resulting in a lower degree of market orientation. In a study of large-sized businesses, Davis *et al.*, (1991) concluded that there is a positive relationship between perceived environmental turbulence and market orientation due to the organization's desire to reduce uncertainty. Lusch and Laczniak (1987) suggest that businesses in highly competitive environments may be influenced to be more responsive to the changing needs of the marketplace, and hence, be more market oriented.

In Ghana's economy, it is expected that market oriented firms are those which will adapt to the changes taking place in the economic reform marketing environment by developing strategies that are based on customer and competitor orientation. Thus, products will be developed in response to evolving customer needs, promotions will take into account consumer attitudes and benefits, distribution activities will be performed efficiently to provide the customer with the required goods at the right place and time. In order to gain an edge over

their competitors, firms will seek to become price competitive, focus on sound logistical practices and work closely with suppliers and distributors. Furthermore, a market oriented business will embark on quality marketing research to provide information required to support market decisions and also subscribe to long-range strategic marketing planning. The foregoing discussion leads us to our first hypothesis. That is:

H1: There is a positive association between the extent to which a firm operating in Ghana adapts to the SAP-induced business environment and its level of market orientation.

Organizational Culture and Market Orientation

The market, adhocracy, clan and hierarchical culture types are dominant ones rather than mutually exclusive classifications. Hence, although the majority of organizations may be characterized by more than one form of culture, one culture type assumes a predominant position over a period of time (Deshpande and Webster, 1989). In a recent study, Deshpande *et al.* (1993) tested for differences in business performance among a sample of Japanese firms on the basis of the four culture typologies and found that performance ranked from best to worst according to type of corporate culture. These were as follows: market; adhocracy; clan; and, hierarchical. In a competitive marketing environment, it is expected that a firm's degree of market orientation will also vary according to the category of culture. Hence, we seek to extend Deshpande *et al.*'s investigation by examining the influence of organizational culture on the extent of market orientation of businesses operating in an emerging economy.

Referring to Deshpande *et al.*'s (1993) model, the clan culture, which stresses tradition, loyalty and internal maintenance could result in a lack of attention to changing market needs, which, in turn, may lead to a low degree of firm market orientation. The adhocracy culture, with its emphasis on entrepreneurship, innovation and risk taking is expected to have a relatively higher degree of market orientation than the clan culture. The hierarchical culture, with its focus on smooth operations and predictability in a bureaucratic organization is likely to lead to a low level of firm market orientation. On the other hand, the market culture, which is based on differentiation, competitive advantage and market superiority, is expected to exhibit a high level of market orientation. Generally, the organizational emphasis on external positioning over internal maintenance is likely to be associated with higher levels of market orientation. Thus:

H2: The degree of market orientation of firms operating in Ghana is expected to vary respectively from highest to lowest according to the type of organizational culture as follows: market; adhocracy; clan; and, hierarchical.

Methodology

Sample

Respondents of the study comprised the managing directors of large manufacturing and service organizations operating in Ghana. Firms were both foreign and domestic owned businesses with at least 100 employees (cf. Liedholm and Mead, 1987; Okoroafo and Russow, 1993) and had been operating in the country for at least 3 years. Data were collected using a combination of in-depth interviews and self-administered questionnaires after a pre-test with eight business executives in Ghana. The questions, solicited perceptions of business strategies emanating from the SAP-induced environment, corporate culture and market orientation. Managing directors were selected as the unit of analysis for a number of reasons. First, it has been suggested in the relevant literature that top management support and participation are critical for achieving market orientation (Kohli and Jaworski, 1990). In addition, management scholars contend that top management must have the best appreciation of corporate market orientation because of the need to satisfy their various publics (Deshpande *et al.*, 1993) and that responsibility for such an orientation must lie with the corporate executives (Webster, 1992). Furthermore, while junior and middle level managers may be unsure about the form of culture required to increase the level of market orientation (Deshpande *et al.*, 1993), top executives should have this understanding (Webster, 1992).

The sample consisted of 232 firms which were selected from the *Ghana Business Directory* (1995) and the Department of Trade and Industry's (UK) directory of companies operating in Ghana through a systematic random method. Organizations which appeared twice were manually eliminated. The items used in the research instrument were based on a 7-point Likert scale (ranging from 1 = strongly disagree to 7 = strongly agree). Firstly, the questionnaire was administered to 12 managing directors who agreed to participate in personal interviews in February 1996. Secondly, questionnaires and covering letters were mailed to the managing directors of 220 firms during the same month. A follow-up questionnaire was then posted to those who did not respond to the initial survey one month after the first wave of mailing. From the first and second mailings, 58 and 25 responses were received respectively.

A mail response of 83 was obtained, yielding 78 usable questionnaires. The combination of mail questionnaires and personal interviews resulted in an overall response of 90. The response rate of 38.8% compares favorably with previous research in the area (cf. Akaah *et al.*, 1988 - 33%; Okoroafo and Torkornoo, 1995 - 26%). Although the sample was selected from different industrial sectors across the whole country, they were all large firms, and hence, there are no claims that this sample is representative of Ghana's industry.

Measures

Market Orientation: This study adopted Narver and Slater's (1990) construct because their instrument had been developed and refined and had yielded reliable results. Moreover, in a recent study the authors conceptualize this orientation as a cultural dimension and a deeper element of the organization, which is purported to influence its learning capability (Slater and Narver, 1995). Dimensions of the market orientation construct are presented in Appendix 3.

Organizational Culture: The culture construct was adapted from Deshpande *et al.* (1993) who, in turn, derived their instrument from the conceptualizations of Quinn (1988) and Cameron and Freeman (1991). A number of statements were formulated and synthesized to capture the dominant type of culture within the firm. There were 16 items in all, four for each of the culture classifications. Within this classification, a question for each type of culture was considered in the context of four different organizational variables, namely: leadership; kind of organization; what holds the organization together; and, what the organization emphasizes. Respondents were asked to distribute 100 points among the four descriptions depending on how they perceived the statement to be reflective of their business.

Business strategies in an SAP-induced environment: These measures were derived, in part, from Okoroafo and Kotabe's (1993) business strategy dimensions and from discussions with top executives in Ghana during the pilot test (Blankson and Appiah-Adu, 1996). The six-item construct which was developed and used included: downsizing of firms' employees; introduction of new and improved products for customers; strategic planning; promotion of products/services; competitive pricing strategies; and, efficient manufacturing/distribution systems.

Analysis and Results

The mean scores of the business strategy dimensions are reported in Table 1. The evidence provided reveals that the most commonly used approach which is perceived to have the strongest impact on the degree of market orientation, is strategic planning. Next in sequence are: promotion of products and services; introduction of new and improved products; competitive pricing of products and services; efficient manufacturing/distribution systems; and, downsizing. With the exception of downsizing all the other approaches exhibit significant differences between high and low market oriented firms at the 0.05 significance level. In addition, their mean scores are above the value of 4 which represents the mid-point of the scale and which indicates that, on the whole, businesses in Ghana are implementing these SAP-induced strategies. This supports Cuthbert's (1996) assertion that the improvement in marketing practices in some Asian and developing countries is often based on the adaptation of Western marketing techniques.

The mean scores of the culture dimensions are reported in Table 2. Consistent with the literature which suggests that marketing is still in its embryonic stages among many firms in developing economies (e.g., Kaynak and Hudanah, 1987), the least self-reported culture typology is the market culture. However, there is a reasonably proportional representation of all the four culture categories in the sample. Similar to the findings of Deshpande *et al.* (1993), the culture classifications here reflect matters of degree and not distinct prototypes. For instance, although several firms in Ghana are characterized by the adhocracy culture, they also tend to be clans. Two of the culture types exhibit a significant difference for high and low market oriented businesses. Table 2 demonstrates that the results of market and hierarchical cultures are the only significant findings in the univariate tests, with clans just missing out on significance.

Discriminant Analysis

On the basis of business strategy and culture, a discriminant analysis was employed to establish a distinction between executives' perceptions of high and low degree market oriented behaviors. This method also facilitates appropriate discussion on the implications of the findings for business practitioners. The correlation of each explanatory dimension with the discriminant function, that is, the partial correlation of each item with the market orientation

scale is indicated in the discriminant loading column.

Business Strategy: The coefficients of all the six items are positive, providing an overall support for hypothesis 1. Strategic planning has the strongest association with market orientation, followed by promotion of products and services, introduction of new and improved products, competitive pricing of products and services, efficient manufacturing/distribution systems, and downsizing of firms' employees.

Culture: Hypothesis 2 receives mixed support. The coefficients of the four culture types do not follow the exact sequence expected. Consistent with our expectations, the relationships between market and hierarchical culture types and market orientation are positive and negative respectively. Adhocracy culture also has a positive but non-significant association with market orientation. However, contrary to our expectations, there is a positive link between the clan culture type and market orientation, although this relationship is not significant.

Table 1 : Discriminant Analysis

Business Strategy ^a Dimension	Means			F-ratio ^b	P	Discriminant Loading
	All	High Market Oriented Firm	Low Market Oriented Firm			
Strategic Planning	5.83	6.42	5.27	18.23	0.0001	0.84
Promoting goods/services	5.77	6.20	5.34	11.33	0.0011	0.66
New/improved products	5.19	5.62	4.77	8.44	0.0078	0.54
Competitive pricing	4.29	4.72	3.86	5.67	0.0395	0.41
Efficient manufacturing/ distribution	4.17	4.53	3.82	4.99	0.0473	0.34
Downsizing	3.58	3.79	3.39	0.94	0.3351	0.19

^a Business strategy dimensions are rank-ordered according to size of discriminant loading

^b Degrees of freedom = 1,85.

Table 2: Discriminant Analysis

Culture Dimensions ^a	Cronbach Alpha	Means			F-ratio ^b	P	Discriminant Loading
		All	Low Market Oriented Firm	High Market Oriented Firm			
<i>Market</i> (4 items)	0.75	81.3	79.6	83.0	5.32	0.0475	0.47
<i>Clan</i> (4 items)	0.84	106.3	112.1	100.4	3.25	0.0641	0.28
<i>Adhocracy</i> (4 items)	0.66	112.7	110.1	115.3	0.47	0.4958	0.23
<i>Hierarchical</i> (4 items)	0.81	97.4	95.3	99.5	9.88	0.0135	-0.34

^a Culture dimensions are rank-ordered according to size of correlation within the function

^b Degrees of freedom = 1,85.

Classification

A classification matrix was computed to assess the validity of the derived discriminant function. Table 3 indicates that the proportion of firms correctly classified by the model was 55.17% and the proportional and maximum chance criteria yielded values of 31.31% and 48.88% respectively. Thus, the percentage of cases correctly classified is significantly better than chance on the basis of the proportional chance criterion (Morrison, 1969).

Table 3: Classification Results

Actual Group	Predicted Group		Actual Total
	Low Market Orientated Firms	High Market Orientated Firms	
Low market orientated firms	29 (65.9%)	15 (34.1%)	44
High market orientated firms	24 (55.8%)	19 (44.2%)	43
Ungrouped cases	3	3	0
Predicted Total	53	34	87

Percentage of cases correctly classified = 55.17%

Proportioned chance criterion = $(29/90)^2 + (19/90)^2 = (3/90)^2 = 31.31\%$

Maximum chance criterion = $44/90 = 48.88\%$

Discussion

Business Strategies and Market Orientation

Of the six business strategy measures investigated, all items but one had a significant impact on the level of firm market orientation. Strategic planning, which requires the organization to adopt a focused or diversification strategy, was found to have the strongest impact on the perceptions of a firm's degree of market orientation. This is not surprising due to the need for organizations to clarify their business position and direction in an environment which is characterized by a proliferation of businesses and increased competition. The strategic planning approach to tackling market issues is gaining popularity in many emerging economies. For instance, Dadzie *et al.* (1988) found that product differentiation strategies were considered important in African countries. Firms such as Unilever have adopted an extensive diversification strategy to their business operations in many developing economies,

with Ghana and Nigeria as prime examples (Okoroafo and Russow, 1993).

The growth in competition has led to an increase in the utilization of promotional tools among firms. These promotional tools should take advantage of the issues relating to product offerings, consumer behavior, pricing and distribution (Wills and Ryan, 1982). The introduction of new and improved products will also gain significance in a competitive marketplace. Successful product strategies will require a sound approach to the gathering and dissemination of, as well as responsiveness to market intelligence.

It has been suggested that efficient manufacturing processes play an important role in improving product quality (Kotler, 1997). Although there was a positive relationship between the extent of use of firm rationalization strategies and degree of market orientation, the result was not significant. This suggests that rationalization is not perceived as an important influence on the level of market orientation. A possible explanation is that market oriented firms have always maintained sound policies regarding firm size or number of operating subsidiaries, and thus, have not had the need to engage in serious cutbacks since the introduction of the SAP.

Culture Types and Market Orientation

Market culture was perceived to have a significant influence on the degree of market orientation. This is consistent with our expectations and suggests that the impact of a market culture can be pervasive across national boundaries. The characteristics of a market culture include competitiveness, goal achievement, decisiveness, goal orientation, productivity, competitive advantage and market superiority. Such a culture emphasizes the creation of sustainable superior value for the customer and promotes behavioral norms required for a firm to develop and respond to market information. A market culture fosters a value system which facilitates the sharing of information and agreement on its meaning, and also upholds the importance of thorough market intelligence and coordinated efforts aimed at achieving effectiveness in the marketplace (Slater and Narver, 1995).

In line with our expectations, the hierarchical organizations were found to be the least market oriented. Thus, in firms where dominant attributes comprise rules, regulations and

uniformity, while strategic emphases are based on stability, predictability and smooth operations, the end result is an inward looking bureaucratic firm which is not customer or market focused. Notwithstanding the non-significant results of the adhocracy and clan culture types, it is interesting to note that the firms with external focus (market and adhocracy) both have a positive link with a firm's market orientation, whereas the clan and hierarchical culture types, which are characterised by an internal emphasis, provide mixed results. Furthermore, clans appear to be fractionally more market oriented than their adhocracy counterparts. Perhaps the small sample size, plus the fact that some firms exhibited a variety of culture types led to these mixed findings. On the other hand, it may be that because Ghana's market is not yet completely a buyers' economy (Masten and Brown, 1995), these two culture types are not sufficiently distinguished in their links with a firm's level of market orientation.

Conclusions and Implications

The current study has contributed to knowledge in a number of ways. Firstly, from an empirical and theoretical viewpoint, it has investigated the association between economic reform business strategies and market orientation of firms operating in Ghana's changing marketplace. Secondly, it has identified the links between organizational culture and market orientation. Given that this paper builds on the scant empirical and theoretical evidence available on Ghana, it attempts to address a gap in an area that is currently under-represented in the literature and provides further insight from a non-industrialized business perspective.

Managerial Implications

To marketers and business executives of firms which are currently operating in the developing world, and more specifically in Ghana, the study results suggest that there is a positive link between SAP-induced business strategies, corporate culture and market orientation. This provides executives with new market opportunities to be considered in their long-term planning efforts in developing nations. The findings are also relevant to entrepreneurs in both developed and developing countries who intend to engage in business activities in Ghana.

Given the findings of previous research which indicate that firms responding to the changing marketplace through the utilization of sound marketing principles generally perform better than their competitors (e.g., Okoroafo and Torkomoo, 1995), it is important that

managers consider adopting the appropriate business strategies and organizational culture which will enable them to enhance their levels of market orientation. In this context, a transfer of Western management techniques will involve the relevant moderations and modifications across cultures. Despite reservations by some managers regarding the benefits of SAP-induced strategies, the study findings suggest that firms which are conscious of long term gains inherent in adapting to the changing environment develop the appropriate business strategies and culture in response to potential market demands.

Considering the superior performance achieved by firms which match their strategies and behaviors to the marketplace in transition economies (Okoroafo and Russow, 1993), managers may be advised to set up formal programmes to improve customer orientation and monitor the competition, while ensuring that information generated in these areas is coordinated among functional units in order to effect the appropriate response where necessary. In this context, firms should strive for a culture that emphasizes customer service and quality and demonstrate their seriousness by committing adequate human and financial resources to these causes. Research findings indicate that successful firms which have adapted promptly to market changes in transition economies emphasize customer satisfaction and are more likely to recognize the importance of market research and new product development (Golden *et al*, 1995). Since, it is expected that a market orientation will indirectly influence performance by enhancing product quality and customer service levels, managers would do well to develop superior capabilities in adopting strategies and behaviors that are associated with a market orientation.

Limitations and Research Implications

As the study was designed to assess the effects of economic reform related business strategies and corporate culture on market orientation levels of firms operating in Ghana, a logical extension of this inquiry may involve the impact of the business strategy and culture dimensions employed in the current study on different measures of organizational performance. For instance, Okoroafo and Kotabe (1993) found a positive relationship between these business strategies and performance in their study on Nigeria. In the same vein, similar studies could be replicated in other developing economies which have adopted the SAP. A further area of research which will be of interest to academics and managers is an investigation

into the links between culture and performance. Deshpande *et al.*'s (1993) finding suggests that, despite a strong national culture in Japan, there is a global universality of a competitive organizational culture that might transcend the prevailing national culture.

Our study relied on the assessments of one internal informant within the business, and thus, the measurement of a firm's culture, business strategy and market orientation variables are subject to cognitive bias. However, limitations in time and financial resources prevented us from employing multiple respondents in individual organizations. To this end, future research may consider the adoption of the quadrad unit of observation (matched set of buyer-seller pairs) utilized in the work of Deshpande *et al.* (1993). Furthermore, in order to fully appreciate the links between organizational culture and market orientation, a combined method of comprehensive, multiple interviews and in-depth case studies could be adopted to generate data among different industry sectors. Finally, to establish causal association amongst the variables investigated in our study, it is suggested that future studies adopt a longitudinal approach in order to provide greater confidence in these relationships which are based on trends.

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Appendix 1: Ghana's Key Indicators.

	<i>Unit</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>
<i>Population</i>	m	14.30*	14.60	15.00	15.33	15.82
<i>GNP</i>	\$bn	5.00	5.10	5.80	6.30	7.00
<i>GNP per capita</i>	\$	357	355	390	414	450
<i>Inflation</i>	%	31.30	25.20	37.00	18.00	10.10
<i>GDP real growth</i>	%	6.20	6.10	2.70*	5.30	3.90
<i>Exports (FOB)</i>	\$m	881.0	807.2	891.0	997.6	986.3
<i>Imports (CIF)</i>	\$m	917	1,002	1,199	1,319	1,457
<i>External debt</i>	\$m	3,099	3,099	3,498	3,768	4,507
<i>Exchange rate</i>	C per \$	202.40	270.00	26.33	367.83	437.09

* estimated figure

Source: Africa Review: The World of Information (The Economic and Business Report) (1995) Eighteenth Edition, Kogan Page and Walden, London, pp.78.

Appendix 2: A Model of Organizational Culture Types

ORGANIC PROCESSES (flexibility, spontaneity)

<p>Type: Clan</p> <p>DOMINANT ATTRIBUTES: Cohesiveness, participation, teamwork, Sense of family</p> <p>LEADER STYLE: Mentor, facilitator, parent figure</p> <p>BONDING: Loyalty, tradition, interpersonal cohesion</p> <p>STRATEGIC EMPHASES: Toward developing human resources, commitment, morale</p> <p><i>INTERNAL MAINTENANCE</i> <i>(Smoothing activities, integration)</i></p>	<p>Type: Adhocracy</p> <p>DOMINANT ATTRIBUTES: Entrepreneurship, creativity, adaptability</p> <p>LEADER STYLE: Entrepreneur, innovator, risk taker</p> <p>BONDING: Entrepreneurship, flexibility, risk</p> <p>STRATEGIC EMPHASES: Toward innovation, growth, new resources</p> <p><i>EXTERNAL POSITIONING</i> <i>(Competition, differentiation)</i></p>
<p>Type: Hierarchy</p> <p>DOMINANT ATTRIBUTES: Order, rules and regulations, uniformity</p> <p>LEADER STYLE: Coordinator, administrator</p> <p>BONDING: Rules, policies and procedures</p> <p>STRATEGIC EMPHASES: Toward stability, predictability, smooth operations</p>	<p>Type: Market</p> <p>DOMINANT ATTRIBUTES: Competitiveness, goal achievement</p> <p>LEADER STYLE: Decisive, achievement oriented</p> <p>BONDING: Goal orientation, production, competition</p> <p>STRATEGIC EMPHASES: Toward competitive advantage and market superiority</p>

MECHANISTIC PROCESSES (control, order, stability)

Source: Deshpande *et al* (1993)

Appendix 3: Market Orientation Construct

Customer Orientation

Customer commitment activities

Creation of customer value

Understanding customer needs

Measuring customer satisfaction

Offering after sales service

Competitor orientation

Salespeople share competitor information

Responding rapidly to competitors' actions

Top managers discuss competitors' strategies

Targeting opportunities for competitive advantage

Interfunctional coordination

Engaging in interfunctional customer calls

Sharing information among functions

Integrating all functions in strategy

Contribution of all functions to customer value

Sharing resources with other functions

Source: Narver and Slater (1990)

CHAPTER 9

Marketing in Emerging Countries: Evidence From a Liberalised Economy, 1997, Marketing Intelligence and Planning, volume 15, numbers 6&7, pp 291-298.

Abstract

Following a review of the current economic trends in emerging nations, this article discusses the importance of marketing within the macro and micro contexts of business environments in a typical liberalised economy. The paper provides a background to changes taking place within the market environments of emerging nations which have instituted policies to liberalise their economies, with a focus on Ghana, which has been hailed as a successful bright star of the developing world. In the context of developing countries, the relevance of marketing is highlighted, followed by the identification of a number of areas in which effective marketing strategies are gaining increased importance in Ghana's evolving marketplace, and in this context, case studies of three companies which have achieved superior performance as a result of improved marketing practices are discussed. Finally, the implications of the changing environment for business and marketing managers of both foreign and domestic firms are addressed.

Introduction

As a result of the liberalisation and restructuring of many Third World economies and increased interdependence of the world's markets, the past decade has witnessed a growing interest in the role of marketing in developing countries (Cavusgil and Yavas, 1984; Sheth, 1992; Okoroafo and Torkornoo, 1995). The role of marketing within organisations is becoming increasingly important for the survival and sustained growth of modern day businesses, primarily due to increased competition in the marketplace. Given the importance of, and interest in the marketing concept in developing countries, the aim of this article is to examine the impact of economic restructuring in the Third World upon the marketing function and its relevance in a typical emerging nation.

During the last decade, many developing countries were beneficiaries of a Structural Adjustment Programme (SAP) set up under the auspices of the International Monetary Fund (IMF). The SAP comprises reforms in fiscal, monetary, exchange rate policies, trade liberalisation, privatisation, rationalisation and restructuring of public enterprises. The

recipient countries, including Ghana, Gambia, Nigeria, Sierra Leone and Zambia in Africa, as well as Chile, Argentina, Mexico and Venezuela in South America, subscribed to the structural adjustment facility of the IMF in return for instituting specific economic policies devised to liberalise their economies. These programmes were facilitated by borrowing funds from the IMF in order to embark on radical economic reforms. The reform policies have significantly transformed the business environments of the majority of adopting countries.

In spite of the fierce criticism by sceptics of the SAP, there is evidence (Humphreys and Yaegar, 1990) to suggest that countries which subscribed to the SAP have realised enhanced performance at the macroeconomic level (eg. fund flows, export proceeds). However, there is limited evidence of the effects of such reforms on business practices at the micro or firm level. This paper focuses on Ghana, which has been hailed as one of the greatest beneficiaries of the IMF's SAP.

Background to the Study

Ghana, which has a population of 15.6m, a GDP of \$5906m and a GNP of \$7117m (1993), has been cited by the World Bank and IMF as a role model of success in the Third World (West Africa, 1995). This is due to the growth rates that have been realised by pursuing the SAP and the consequent fostering of a free market economy. Like many other developing countries undergoing transformation, Ghana has sought to improve its economy through an Economic Recovery Programme (ERP). This process commenced in 1983 and consisted of policy reforms aimed at expanding private business initiatives, particularly from the export oriented sector. The reforms which have had the greatest effect on the marketplace are highlighted in the following section.

First, reforms in foreign exchange policies were instituted to reflect the real value of the currency (cedi) and make the availability of foreign currencies more widespread. Second, investment reforms were introduced to boost investments. A wide range of incentives was instituted to attract foreign investors into the country. Third, trade policies were reformed to liberalise trade and promote exports. There are now minimal restrictions on the requirement for import licences, while bans have been lifted on the freedom to export many goods.

Importance of Marketing in a Developing Economy

In spite of the continued use and application of marketing in the Third World, there is an on-going debate concerning the applicability of marketing to developing countries. Associated with this debate are two schools of thought. One perspective is that the marketing concept is not applicable in developing countries because the principles and techniques are based on the tenets of buyers' markets (markets where supply of goods and services is much greater than demand), whereas the vast majority of developing countries are characterised by sellers' economies (markets where supply of goods and services is far less than demand). It has been argued that the marketing concept *has been essentially a tool of developed countries, a means by which the products of buyers' market economies are marketed, a discipline of domestic marketing theory that has been extended minimally to foreign situations. It is not a discipline of globally accepted principles that may be applied to a subset of national economies* (Bartels, 1983) and also, while the basic marketing concept is based on the premise that managers have full control over the components of the marketing mix, such a premise does not hold in developing economies.

The alternative view is that, the concepts and techniques of marketing are applicable in developing countries but lack of adequate marketing knowledge and shortage of marketing expertise are perceived as barriers to the applicability of the discipline (Kaynak and Hudanah, 1987). In fact, several academics and practitioners of development have purported that the one main problem in economic development of Third World countries is that little attention has, so far, been placed on the shortcomings and opportunities of marketing (Mittendorf, 1982). Clearly, marketing as carried out in developed countries, with an emphasis on inducing new needs and wants may not be of prime concern in the poorer developing economies (Keegan, 1984). The marketing concept is more than a quest for new needs and wants, it is basically a framework of analyses, tools and skills which provides executives with the ability to match organisational resources and competencies to the needs of society (Maholtra, 1986). Thus, the marketing discipline can be effectively employed in an effort to meet the needs of the Third World.

In light of the above debate, various researchers have investigated the extent of utilisation of marketing tools in developing countries. Evidence from Akaah and Riordan's (1988) study indicates that the degree of incidence and regularity of implementation of marketing principles is on the increase, and hence, they assert that the marketing concept is

applicable in the Third World. However, the authors note that the applicability of marketing concepts and techniques might be dependent upon country and corporate specific factors.

Marketing Practices in a Typical Developing Country

Several variables have been identified as factors which hinder the implementation of marketing practices in most Third World countries. These include problems associated with the socio-cultural, governmental, legal, political and economic, environments. Generally, factors such as poor growth and high inflation rates, rigid trade barriers, political instability and frequent changes in business laws, inadequate communications, sub-standard infrastructure and high political risk serve as barriers to development. Furthermore, the market environment reflects sellers' market economies. In government circles, the view held by policy makers and planners is that a shortage of goods and services is the major problem of Third World countries and that the solution lies in increased production. In such an environment the implementation of marketing practices is considerably hindered. This is due to the fact that goods are manufactured and sold regardless of their suitability to buyer needs, while prices are fixed on the basis of government regulations. Generally, promotion and market research activities are difficult to carry out in many Third World nations since *all disclosure of information to the public is rigidly monitored* (Sadri and Williamson, 1989). In organisations, manufacturing and production are usually given more prominence than marketing. The marketing discipline is perceived as a quasi-parasitic activity which is not beneficial in the overall economic development programme of a Third World country. The *economy of scarcity* conditions which characterise the market environment requires and fosters increased emphasis on manufacturing and production.

To make matters worse, marketing education receives little attention in academic circles. A focus on the traditional professions and conventional social science courses has produced business managers who have little appreciation of the significance of marketing's role within the firm. As such, sales activities are regarded as peripheral functions of debateable value, whereas manufacturing and engineering have attracted a higher profile amongst the public (Yavas and Rowntree, 1980). Furthermore, less-developed countries usually exhibit a *dual economy* - a situation where a few cities are characterised by a style of living that is considerably different from the rest of the population. Another distinct feature is the highly skewed income distribution, on either a personal or geographic basis. These peculiar characteristics in the business environments of developing countries pose challenges

to organisations in their efforts to pursue nationwide distribution strategies. This is because the overall market comprises many segments and this calls for different marketing approaches at considerably different levels of sophistication (Ross and McTavish, 1985).

Marketing Strategies in Ghana's Changing Environment

Before the introduction of reform policies, marketing decisions were made in an environment where competition was virtually non-existent. Government bodies had the monopoly of making decisions in a sellers' market. The Ghana market was still characterised by the production or product era where goods were manufactured for customers who had no choice but to buy them due to lack of alternatives. Similar to most developing countries, the marketing concept might have been accepted in theory, but hardly put into practice (Mitchell and Agenmonmen, 1984). However, the current reforms in the marketplace are bound to transform Ghana's once centralised economy into a free market, where several producers strive for the custom of prospective purchasers. With the new shift towards a fiercely competitive business environment, this decade is witnessing a different approach to the marketing concept, with the customer as the focus of marketing activities. Consequently, it has become imperative for firms to adopt different marketing practices because as customer needs and expectations evolve and grow over time, it will be the responsibility of the marketer to deliver consistently high quality, value for money products and services. There is evidence to suggest that the new environment has resulted in increased performance of marketing activities in Ghana (Dadzie *et al*, 1988).

Product/service quality, modification of existing products and new product success will be vital in developing a competitive advantage. Modified and new products/services are important for realising long-term viability, while the successful execution of a quality management strategy and the provision of better services to customers are critical to performance enhancement (Jacobson and Aaker, 1987). Moreover, the improved manufacturing processes should assist firms to enhance performance. Pricing techniques will play a crucial role in boosting performance and though, the choice of strategy will depend on organisational objectives, it is vital for products to be priced competitively. Costs need to be streamlined in order for firms to remain competitive. Hence, it is not surprising to experience cutbacks in terms of employees and subsidiaries, as organisations seek to become more competitive. The implementation of effective customer focused promotions is also important, and thus, promotional tools need to utilise strategies relating to product offerings, pricing,

consumer behaviour and distribution. Thus, it is not surprising to note that currently, promotional efforts are very much on the increase in Ghana. Furthermore, there is a need to investigate alternative means of delivering products to customers more efficiently. This might call for joint efforts with distributors and suppliers as well as efficient administration of logistical functions such as sourcing, inventory and transport (Okoroafo and Russow, 1993). Other issues which require attention include effective marketing research and appropriate strategic choices (Austin, 1990). This is due to the fact that as the environment becomes increasingly turbulent, organisations place more emphasis on decentralisation and their strategic marketing planning efforts tend to assume higher levels of sophistication and long-term orientation. The expectation is that such an approach to planning will result in enhanced organisational performance (Welge and Kenter, 1988).

Firms tend to diversify their activities (Johnson and Thomas, 1987), or alternatively, attempt to gain control of their marketplace in order to be able to handle the uncertainty. In their efforts to assume control within the marketplace, two important areas where organisations tend to focus are their relationships with suppliers and distributors (Porter, 1985). Furthermore, new overseas markets will be explored in an attempt to widen their options and broaden their customer base. The utilisation of arms-length transfer pricing is allowed while reduced taxation rates are offered as an incentive. In a competitive marketplace, companies will have to undertake extensive research to acquire information required to facilitate strategic marketing decision making. In turbulent environments, it is important that the essential information is at the disposal of key decision makers at the time and place of the decision making process.

Case Studies

This section contains case studies of three firms in Ghana whose strategic responses to the new environment through improved marketing planning and implementation programmes, have assisted in the achievement of superior performance in their respective sectors. The figures on financial performance were obtained from Databank Research Ghana (1996).

Standard Chartered Bank (SCB)

SCB was the first commercial bank to be established in Ghana. Its target sectors include commercial and manufacturing, large scale agriculture, trade finance and personal banking

(middle and upper income class). The bank has branches in the ten regional capitals and a few select districts. SCB holds the largest share (18%) of total advances for the banking sector but in terms of total deposits, assets and after tax profits, it ranks third with 14%, 12% and 14% shares respectively.

SCB's mission is to be a full-service bank with an effective network of branches, providing quality service, placing the customer at the centre of activities and creating value for customers, employees and shareholders. The mission was conceived to re-position the bank as a preferred provider of banking services in its chosen markets in recognition of the intensifying competition in the banking industry, and rapidly changing product delivery channels based on new information technologies. In order to achieve their mission, SCB constantly makes an effort to stretch its targets, core capabilities and organisational skills.

In conjunction with the economic recovery programme, the Bank has implemented a restructuring programme which includes closure of some branches and agencies, reduction in staffing levels and systems re-engineering. The rationale for this re-organisation is to sharply focus on their selected markets and provide the best services to customers in those markets and at the same time continue to manage costs well, and further improve risk management. SCB pioneered the computerisation of banking operations in Ghana. Their continued efforts to make banking facilities easier and more convenient to the customer led to the introduction of various innovative products and repackaging of existing ones. These changes and the increased business activity in the economy, have paved the way for improved efficiency in its operations and hence profitability. The bank's operating costs are near inflation levels, asset quality has improved substantially, debt recovery has been encouraging, whilst its reputation in the chosen markets remains high with a constant rise in share value on the stock market. To maintain its leadership position in trade banking together with associates in the African countries, SCB organised a visit by a trade delegation from Africa to the Far Eastern countries in 1995, culminating in a very successful roadshow.

Details of areas in which SCB achieved improved performance between 1994 and 1995 are as follows:

a. Creating Shareholder Value: Net profit after tax grew to \$15700m (from \$9700m). The growth was due, firstly, to a 50% increase in deposits which enabled SCB to increase its

advances to customers and investments in treasury bills, and secondly, 60% growth in fee income due to increasing volumes of business resulting from improved sales capabilities. Total assets grew by 54% which was induced principally by an increase in customer deposits. Loans and advances grew by 129% mainly as a result of new businesses. Cash and short-term investments grew by 37%, again induced by deposit growth. Deposits grew by 54% from the retail and corporate sectors.

b. Efficient Management of Capital: The Bank's capital adequacy ratio remained high at 8.2% above the Central Bank's requirement of 6%. Average return on assets was 8.15% (1994 - 7.8%) and return on shareholders' equity was 83.2% (1994 - 66.4%).

c. Maintaining a Competitive Advantage: Net revenue grew by 69% in a very competitive market. Progress in increased market share was achieved through an emphasis on generating value-added services for customers and effective selling of SCB's products. Delivery systems were introduced to better match customers' needs in Personal Banking, and Corporate/Institutional Banking. Automatic teller machines were installed in bank branches whilst back office systems were considerably enhanced, making significant contributions towards providing efficient services to their customers at the least possible cost.

SCB's Prospects

In the next few years, the Bank intends to focus on: strengthening its front and back office technologies; strengthening its management capabilities; and, modernising its branch premises. The changing environment and increasing competition emphasise the importance of SCB's efforts to streamline its operations, focus on core business, perform support functions in the most cost effective manner and gain the support of all staff in projecting a good image.

Guinness Ghana Limited (GGL)

GGL was incorporated as a private company in 1960. Its main line of business at the time was purely the sale and distribution of Guinness Foreign Stout. In 1970, the company embarked on the construction of a new brewery and bottling plant for the production, sale and marketing of Guinness Stout. GGL has also since diversified from its single product of Foreign Extra Stout (FES) with the addition of a non-alcoholic beverage known as Malta Guinness. The late 1980s and early 1990s were tough times for GGL. Having found its fortunes in small niche markets, GGL experienced several major setbacks which took a toll on the company's levels of productivity and profitability. In 1990, there was an overall reduction in the beer market

resulting from the general decline in the country's economy. However, by 1993 strong demand for Guinness brands had placed the company under considerable stress. Thus, GGL embarked on an expansion programme to enable it to cope with the escalating demand.

GGL is a market leader in the beverage market and enjoys the benefits of an international brand which eclipses other domestic stout drinks in scope, image and taste. After enjoying a virtual monopoly over the stout market, GGL now faces increased competition as a result of the growing population and economic growth fuelling demand in the brewery industry. The main products in the brewery industry are stout and larger. Despite the rapid growth in the beer market, Ghana is still regarded as one of the lowest beer consuming countries in the world and thus, there is significant growth potential in the market. As the economy expands and personal incomes increase in tandem, it is expected that total beer consumption in the country will reflect the rising incomes and consumption patterns in other African countries. Marketing activities will therefore be intensified and will continue to be a major determinant of sales volume. The brewery industry has the potential for more product differentiation through increased innovation by the brewers in their strive to attain market leadership. Unfortunately, the small size of the market has resulted in an imbalance in the market in terms of production and capacity. The under-utilisation of capacity has led brewery companies to aggressive advertising, promotions and productivity improvements in order to attract additional business.

GGL holds a dominant position in the industry and its long-term growth plan is to increase market share of existing products through effective marketing strategies, investment in plant, training and increased cost efficiency. Although the company has no plans to introduce new products in the near future, product development remains part of its long-term plans. GGL has the most extensive distribution network in the brewing industry. It is the only brewing company with 100% country-wide coverage and its network is made up of 60 distributors, 130 direct accounts, 300 wholesalers and 6,000 retailers. Distribution depots can be found in all regions of the country. This gives it the opportunity to expand activities in undeveloped markets. Its strategy to gain market share and remain number one is well conceived. The company has achieved a much lower cost structure than its competitors due to reduction in staff levels and machine down time and implementation of strict management controls.

GGL in a Competitive Environment

The company is undoubtedly the best performer in the market. Guinness' sales grew at an average yearly rate of 40% during the last 5 years. Net earnings have exceeded 100% growth in the last three years. The company's outstanding performance is mainly attributable to the excellent use of its resources in functional areas such as marketing and high levels of operational efficiency.

GGL's Prospects

In order to maintain a firm grip on its leadership position in the beverage market, Guinness should be well placed to meet the growing demands for its brands. The economic conditions and operating environment are becoming more demanding, but expectations are that the brewery industry will continue to be very competitive. GGL will have to increase marketing efforts in order to defend its position. Guinness' strategy of reducing costs coupled with its policy of maximising customer satisfaction by consistently producing quality brands should keep the company in a strong market position in the coming years.

Unilever (Ghana) Limited (UGL)

UGL is a conglomerate with 5 divisions namely: Lever Brothers, Tractor and Equipment, Textiles, GB Ollivant and Swanzy Real Estate Division. The core business of UGL includes the manufacture of soaps, detergents, edible oils and personal care products. The objective of management is to build a robust business by growing volumes and market shares and secure long-term profitability through dominance of their chosen markets by manufacturing high quality products. The service provision divisions have made efforts to enhance their quality of service, embarking on customer-led workshops and achieving speedier delivery of both parts and service.

The company is rationalising its business by pulling out of activities which do not fit with the core product groups and thus, it is withdrawing from trading into manufacturing. In this context, UGL is divesting from the technical business and repositioning its textiles business more towards a manufacturing base. Business processes have been subjected to rigorous re-examination with significant cost savings achieved. Given the growing opportunities in the marketplace, strategic planning processes have been sharpened in order

to concentrate on activities which offer greater potential for profitable growth. The company's strength is built on a substantial investment in high quality brands.

The major contributor to profit, Lever Brothers Division (LBD), is used to provide examples of sound marketing practices in UGL. Improved customer services with greater focus on customers, territories and specialised businesses as well as the introduction of a key distributorship scheme have made a strong contribution to the division's performance. Moreover, there is an increased investment in the personal product group and an expansion in the toilet soap production base to boost future growth. The following are some of UGL's recent marketing initiatives: investment in market research, innovation and quality to achieve continuous improvements in its products; the observation of Annual Quality Days in the factory to remind all about their role in total quality of the business and to emphasise that quality in the business starts with the employee and ends with their products; launch and re-launch of 20 products onto the Ghanaian market. Some of the new products include Lux Beauty Soap, which was re-launched to bring Lux in line with international standards, Close Up toothpaste, tooth whitener and gel mouthwash, and Claricer hair pomade which was re-launched to introduce lanolin and a new size in response to customers' requests.

LBD attribute their sound performance in recent years to sound marketing strategies with a focus on the customer, the introduction of relevant innovations, an aggressive cost reduction programme and productivity increases. In the last 12 months, turnover grew by 54% compared with the previous year's figure of 35%. Operating profit grew by 6.1%, while profit after tax grew by 16%. In line with the company's view of product development as a critical aspect of its marketing operations, management intends to continue with its policy of introducing innovative products on the Ghanaian market. Given Unilever's strong position in its market segment, the potential for profitable operations is immense, granted that a tight lid is kept on costs while both existing and new products are tailored to meet customer satisfaction.

Implications and Conclusions

Evidence from research conducted by Ross and McTavish (1985) suggests that there is a relationship between GNP of developing countries and the performance of marketing activities. Marketing scholars in poorer countries perceive marketing principles as being less

applicable than their counterparts in richer economies. The implication is that the richer a country becomes the greater the likelihood of performance of marketing activities by firms.

A recent investigation by Okoroafo and Russow (1993) into the impact of the IMF's structural adjustment programme on firm performance in Nigeria concluded with suggestions which are equally applicable to Ghana. Thus, it would be important to improve product quality with respect to performance, reliability, durability etc. in order to differentiate a firm from its competitors. Pursuing a strategy of offering better value in the marketplace will enable firms to gain a competitive edge, due to the severity of conditions in Ghana's business environment. For instance, Okoroafo and Kotabe (1993) reported that in an attempt to achieve a reputation for quality, Japanese car manufacturers have improved the durability of car bodies, fitted them with more resistant shock absorbers, and made them more economical to run. Similar to the case of Nigeria, detergent manufacturers such as Lever Brothers (Ghana) Ltd have undertaken a series of marketing research activities in order to improve the effectiveness and durability of their soap. In the short term, research efforts may be geared towards incremental improvements and modifications because in a turbulent marketplace, changing customer needs require major changes in marketing operations if growth in performance is to be achieved. However, many firms may not be able to afford the costs involved in changing marketing operations. Given the likelihood of lagged effects between improved marketing strategies and performance, significant innovation strategies should be planned as a long-term investment, similar to that of capital investment. This may include research efforts and joint programmes with reputable research and development establishments. Promotional strategies will focus on differentiating an organisation's offerings from those of the competition, with a message based on informing the customer about benefits such as reliability, performance, longevity or value for money.

In spite of the on-going changes in the business environment, the market is yet to achieve the full status of a buyers' economy. Thus, like many emerging nations, although the marketing concept has been accepted in principle, there are still difficulties with regards to its implementation and consequently, customer service is currently in its infant stages. Nevertheless, customer care is likely to assume an important role in the medium to long term, particularly as competition increases as a result of the entry of more firms into the market.

It is interesting to note that Okoroafo and Kotabe's (1993) study on Nigeria identified a positive association between a number of factors and performance. These include growth in sources for mobilising investment funds, elimination of exchange and profit remittance controls, active foreign exchange market and improved transportation systems. The authors argue that in order to promote an emerging nation successfully as a lucrative market for foreign entrepreneurs, policy makers have to sustain the on-going changes in the financial, communications and transportation sectors. In the same vein, government officials need to maintain the current momentum of marketing the attractiveness of Ghana's market to potential foreign investors and Ghanaian entrepreneurs living abroad. Furthermore, due to problems caused by fierce competition from imported products, key decision makers need to assist domestic companies by making funds available for the purposes of research and development as well as capital investment.

It has also been postulated that the significance of marketing as an organisational function determines the extent to which marketing principles are practised (Akaah and Riordan, 1988). That is, the greater the perception of the relative importance of the functional role of marketing, the higher the prospects of marketing practices being deemed applicable. Consequently, it is expected that there will be a greater emphasis on market oriented activities as the perception of the importance of marketing's functional role in an organisation is enhanced. Finally, the current growth in Ghana's GNP, together with a continuous shift from a sellers' economy to a buyers' market and from an economy of central command to a market economy should result in an increased focus on market oriented behaviours.

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CHAPTER 10

Marketing Activities and Business Performance: Evidence From Foreign and Domestic Firms in a Liberalized Developing Economy, 1998, Marketing Intelligence and Planning, volume 16, number 7, pp 436-442.

Abstract

Research findings on emerging markets over the last decade indicate that economic reform policies in many developing countries have not only changed the environments of these economies, but also influenced the attitudes of firms towards the marketing concept. This study determines the degree to which marketing activities are practised in foreign and domestic firms in an emerging developing economy and the effects of such practices on business performance. The research instrument comprises five marketing activity components and six performance dimensions. Data were generated from a sample of 200 firms through a self-administered mail survey. Results of the study reveal that foreign firms perform more marketing activities and perceive all marketing components as important determinants of performance in comparison with their domestic counterparts. To conclude, managerial implications of the findings as well as study limitations and future research directions are discussed.

Introduction

In recent years, increased attention has focused on marketing practices in sub-Saharan African developing nations (Dadzie *et al*, 1988; Okoroafo and Torkornoo, 1995; Appiah-Adu, 1997). This emerging body of empirical evidence indicates that there is an increase in the performance of marketing activities among both domestic and foreign firms (e.g., Dadzie *et al*, 1988; Okoroafo, 1996) and that effective marketing practice influences business performance (e.g., Okoroafo and Russow, 1993). The growing academic and practitioner interest in marketing activities of businesses in these economies can be attributed to two factors: namely, the changes and market opportunities which the International Monetary Fund's (IMF) structural adjustment programmes (SAP) have created in many developing markets; and, the renewed organizational involvement in marketing practice in these countries.

In return for instituting specific economic policies formulated to liberalize their economies, countries such as Ghana, Gambia, Nigeria, Sierra Leone and Zaire have subscribed to the IMF's structural adjustment facility. This comprises policies such as: enforcing

monetary restraint policies, price deregulations and tax reforms; eliminating trade, investment and foreign exchange controls; encouraging fiscal responsibility, improving agricultural systems; and, privatization of state controlled organizations. Despite the growing academic interest in these emerging markets, an examination of the pertinent literature suggests that only few studies have specifically compared executives' perceptions of the marketing activity-performance link among domestic and foreign executives. For instance, Okoroafo and Kotabe (1993) examined the impact of the IMF's economic reform policies on firm performance, while Okoroafo (1996) investigated the differences between marketing activities and performance in both domestic and foreign companies. This research builds on the sparse empirical evidence in developing economies by exploring the impact of marketing activities on business performance among domestic and foreign firms in Ghana, a country which has been hailed by IMF and World Bank commentators as a bright star of the developing world.

This introduction is followed by six sections. The first section provides a background to the study, followed by a literature review. Next, based on previous research a number of propositions are outlined and tested empirically. Then, the methodology is reported, followed by the results and discussion section. In the last section implications of our findings for both business practitioners in Ghana's emerging market and potential investors or entrepreneurs from industrialized economies are presented along with possible areas for further research.

Background

Ghana was among the first countries to subscribe to the IMF's structural adjustment programmes (SAP) in sub-Saharan Africa, and today, is at the forefront of the continent's emergence as one of IMF's success stories. The country has a population of 15.6m, a GDP of \$5946 and a GNP of \$7052. Ghana subscribed to the SAP in 1983, and has implemented a series of wide ranging macroeconomic and structural adjustment reforms aimed at reversing the deterioration that had characterized the state of the economy for nearly a decade. The Economic Recovery Programme (ERP) sought to improve the economy's capacity to adjust to both internal and external shocks and to generate sustainable growth and development. It is widely acknowledged by economic analysts that the reforms have largely succeeded. The precipitous decline in real GDP has been arrested and reversed, resulting in an annual average GDP growth of 5% since 1984. In the last six years, the government has initiated a number of policies to encourage expansion in the private sector. These include banking and monetary reforms to improve access to capital, reduction of corporate taxes for most businesses from

45% to 35%, acceleration of privatization of government owned enterprises and rehabilitation of roads, ports and telecommunications systems. All these ERP initiatives have brought about a significant improvement in Ghana's economic position and private sector growth in participation.

Literature Review

Marketing Activities

In this study marketing activities describe decisions and issues relating to product, price, promotions and distribution (McCarthy and Perreault, 1993). The main purpose of marketing is to understand and meet customers' needs and this is achieved when all components of the marketing system, that is, suppliers and distributors are coordinating efforts and working in harmony. Received wisdom suggests that well conceived and effective marketing activities will facilitate the achievement of typical organizational objectives such as higher sales, market share, profits and competitive advantage (Buzzell and Gale, 1987; Okoroafo, 1996; Kotler, 1997). Also worthy of note is the fact that the marketing function is an important and integral part of organizational business strategy. Specifically, marketing activity in this study is based on practices associated with product, price, promotions, distribution, and finally, customer orientation since the customer is perceived as the focus of all marketing efforts.

Pre-Economic Reform Market Situation and Activities

Similar to other developing countries, Ghana was not attractive for direct investments due to conditions characterized by high trade barriers, high inflation rates, low growth, inadequate communications, poor infrastructure and high political risk (cf. Elsaid and Hennawi, 1982). Further, like many developing nations, the market was oligopolistic and in these environments marketing practice at the micro level was limited and highly constrained (Samli and Kaynak, 1984). This could be attributed to the fact that products were manufactured and sold irrespective of their match with customer needs. Due to the monitoring of information disclosed to the public, market research and promotion were difficult to undertake, while pricing of goods were largely dependent upon government edicts.

Post-Economic Reform Conditions and Marketing Activities

The economic reform programme, with its free market influences has brought about a steadily evolving buyers' market in which sellers compete for the custom of purchasers. Consequently,

the description of developing nations as oligopolistic sellers' markets may not be an accurate reflection of transition developing economies. Firms would be driven to make marketing decisions on the basis of their domestic and international environments. In fact, Dadzie *et al's*, (1988) empirical research findings indicate that the new environment has led to increased performance of marketing activities. Further evidence suggests that small firms in Ghana have been forced to become more competitive to survive, especially in industries marked by weak demand, rising operating costs and low-cost competing imports (Steel and Webster, 1992).

Due to the steady progress towards a buyers' market, it is expected that firms in Ghana will begin to conduct marketing activities which emphasize customer satisfaction. Consequently, marketing activities associated with research and development, pricing policy, promotional spend, media selection etc. will become more important. The increased competition will force firms to give more attention to customer needs. In the same vein, product decisions will involve emphasis on quality through better manufacturing processes, improvements to fulfil customer requirements and new product development in response to customers' evolving preferences. Being price competitive and emphasising sound logistical practices are imperative for sustaining a competitive edge. Efficient distribution practices are essential for firms to provide on schedule services and promotional efforts will have to be related to customer attitudes and benefits.

Hypotheses

Marketing Activities of Domestic and Foreign Firms

Evidence is drawn from previous studies, firstly, to highlight the distinctions between marketing practice in foreign and domestic firms, and secondly, to develop our hypotheses. Research efforts of the early 1980s indicate that marketing activities were not adequately performed in most developing nations (e.g. Samli and Kaynak, 1984). Nonetheless, by the late 1980s signs of improved marketing practice were beginning to emerge, with research indicating an increase in the performance of marketing activities in a buyers' market instead of a sellers' economy (Akaah and Riordan, 1988; Dadzie *et al*, 1988). Previous studies which focused on the marketing activities of domestic and foreign companies in developing countries reported differences in their practices (e.g., Chong, 1973; Akaah and Riordan, 1988), with foreign firms outperforming their domestic counterparts in most areas. More recently, Okoroafo (1996) observed an increase in marketing efforts among indigenous businesses in

Nigeria's transition economy, but still found foreign companies to be ahead of their domestic counterparts. Generally, foreign firms tend to focus on customer service and the delivery of a superior product and quality package. Their products are distinguished by brand names and they utilize business principles which have been tested and perfected in their home markets. Moreover, foreign executives are familiar with competitive marketing practices due to the experience acquired in their home markets. Thus, with regard to marketing activities, foreign managers are expected to outperform their indigenous counterparts. The above discussion suggests that:

H1: Foreign firms in Ghana are likely to engage in more extensive marketing activities than their domestic counterparts.

Marketing Activities and Business Performance

Notwithstanding the contention that firms do not always react promptly to changes in the environment and that there is an inertia which inhibits strategic action for some organizations until performance declines significantly (Chandler, 1962), the cause and effect relationship is believed to be more direct in transition environments. The *causal* incident is the change in the environment and the *fostering* of free market ventures and this catalyst may exert a more direct and dramatic impact on the marketing strategy-performance link. This concept is based on research findings which suggest that firms are more likely to make radical changes in hostile conditions than in benign conditions (Miles and Arnold, 1991). Although the change towards a free market economy may not be classified as hostile, drastic changes brought about by reform create a high degree of uncertainty that may be characterized as hostile (Golden *et al*, 1995).

Prior research efforts suggest that sound marketing practice is an important contributor to performance in economic reform economies (Okoroafo and Russow, 1993). Earlier arguments in this article suggest that many businesses will adopt a new attitude to marketing in transition environments, formulating strategies which demonstrate a focus on customers. For firms to be competitive in such environments, it is essential to conduct effective product, pricing, promotion and distribution activities, where customers are central to all marketing efforts. To the extent that these strategies are successfully implemented, they are expected to result in improved performance. Hence, our second set of hypotheses is that for both foreign and domestic firms:

- H2a: The greater the performance of product activities, the higher the performance.*
- H2b: The greater the performance of pricing activities, the better the performance.*
- H2c: The greater the performance of promotion activities, the higher the performance.*
- H2d: The greater the performance of distribution activities, the better the performance.*
- H2e: The greater the performance of customer orientation activities, the higher the performance.*

Methodology

Data Collection

The sample for this study consisted of 200 domestic and foreign manufacturing organizations operating in Ghana. Indigenous firms represented approximately 62% of the sample and the remaining 38% were foreign companies, with parent organizations headquartered in North America, Europe and Asia. Foreign firms were categorized as those with some proportion of ownership abroad. The sample was compiled from the *L'Indicateur Fit Ghana Business Directory* (1996). Data for this research were collected using self-administered questionnaires, after pretests with a group of marketing practitioners in Ghana. Following completion of final revisions to the pilot instrument, a questionnaire, covering letter and reply-paid envelope were posted to marketing executives of the sample firms and follow-up mails were sent to those who did not respond to the initial survey a month later. The items utilized in the questionnaire were based on a 7-point Likert scale and the first and second mailings yielded 62 and 20 responses respectively. A total response of 82 was received but 3 were discarded due to missing key items, yielding 79 usable questionnaires which resulted in a response rate of 39.5%. An analysis of the results of early and late respondents which was conducted to test for non-response bias indicated no significant differences between the two sets of respondents, suggesting that non-response bias was not a major problem (Armstrong and Overton, 1977).

Characteristics of Respondent Firms

Approximately half of the respondents (51.90%) were domestic firms. The remainder comprised foreign firms with headquarters in the USA (12.66%), UK (18.99%), Germany (6.33%), France (3.80%), South Korea (2.53%), Switzerland (1.26%), Netherlands (1.26%) and Sweden (1.26%). Most firms (75.95%) had an annual sales turnover equivalent of at least \$4 million. The combined respondent sample for both domestic and foreign firms represented a wide range of businesses, including manufacturers of food, pharmaceuticals, beverages,

chemicals, metals and industrial equipment. Of the respondent sample, firms producing durable and non durable consumer products constituted 69.62%, while producers of industrial goods accounted for 30.38%. The mean age of all firms was 12.1 years and the average size, based on number of staff was approximately 198. Almost 87% of the firms employed between 100 to 1000 employees, and therefore, the majority of firms could be classified as large businesses (cf. Liedholm and Mead, 1987).

Measures

Measures of marketing activity were derived from the basic principles of the marketing concept. Consequently, the four marketing Ps (product, price, promotion, place) outlined by McCarthy and Perreault (1993) were included. Moreover, essential activities relating to marketing efforts in economic reform environments such as market research (Okoroafo, 1996), customer service and customer satisfaction programmes (Golden *et al*, 1995) were also utilized. Executives were then requested to give responses regarding the performance of various activities associated with product, pricing, promotion, distribution and customer orientation functions based on a 7-point Likert scale (1 = not performed at all to 7 = performed extensively).

Six widely recognized measures were derived from a variety of authors to develop the performance construct. These included sales (Burke, 1984), market share (Collins, 1990), efficiency as reflected by return on investment, (Walker and Ruekert, 1987) and employee productivity (Deng and Dart, 1994) as well as effectiveness in terms of sales growth rate (Douglas and Craig, 1984) and profit margins (McCarthy and Perreault, 1993). Performance indicators were based on a marketing executive's response to questions evaluating whether results were much worse or much better than expected on a scale of 1 (much worse) to 7 (much better) respectively over the last 5 years. This method of subjective performance assessment, with an anchor relative to expectations, allows better comparability across different industrial sectors and situations, with varying standards of acceptable performance (Pelham and Wilson, 1996).

Results and Discussion

Table 1 reports the mean and standard deviation scores on the performance of marketing activities. All means are significant at the 0.05 level and the standard deviation represents the

level of consensus around the mean scores. It can be seen from the results that foreign managers perform more marketing activities than their domestic counterparts probably due to their relatively higher perceptions of the importance of marketing principles. Thus, hypothesis 1 is supported. Table 2 indicates that all five components of marketing activity are found to be significantly and positively related to performance in foreign firms, whereas in indigenous firms only product, distribution and customer orientation activities are identified as significant determinants of performance. Hence, hypotheses 2a, 2d and 2e receive full support, while hypotheses 2b and 2c are partially supported.

The general under-performance of marketing activities by domestic firms in comparison to their foreign counterparts could be due to lack of appropriate resources required to undertake these activities. Our finding that pricing activities are not well performed in domestic firms may be attributed to the fact that managers of these firms are yet to fully appreciate or acquire the skills needed to formulate sophisticated pricing strategies and implement them successfully. With respect to promotional activities, it is possible that these efforts are restricted by environmental factors such as media availability, although foreign firms seem to be making the most of whatever opportunities there are in this area. The relatively widespread performance of distribution activities reinforces the consensus regarding the importance of this function in developing nations (Akaah and Riordan, 1988). The high performance of product and customer related activities confirms the significance of customers as the focus of marketing practice in the increasingly dynamic environments of transition developing economies.

A general trend that is derived from both Tables 1 and 2 is that the extent of practice of individual marketing activities is linked to its impact on business performance. For instance in domestic firms, pricing and promotion activities do not seem to be performed extensively, neither do they exhibit a significant impact on performance. On the other hand, there is a high incidence of performance of product, distribution and customer oriented marketing activities, and furthermore, these elements are found to influence business performance. This trend is consistent in the scores for both foreign and domestic firms. The implication is that the more effective the implementation of a marketing activity, the more likely it is to exert a significant influence on business performance. Indeed firms that commit financial and managerial resources to improve marketing practices can expect enhanced performance.

Table 1: T-test of Differences Between Marketing Activities of Foreign and Domestic Firms

Marketing Activity Measures	Domestic Firms	Foreign Firms	Significance
	<i>Mean (SD)</i>	<i>Mean (SD)</i>	
<i>Product Related Activities</i>			
Emphasis on product quality	4.11 (1.31)	5.21 (1.02)	.003
Product modification	4.32 (1.11)	4.91 (1.17)	.045
New product development	4.89 (1.58)	4.16 (0.82)	.030
<i>Pricing Related Activities</i>			
Analyzing competitors' prices	3.77 (1.42)	4.87 (1.22)	.001
The actual setting of prices	4.01 (1.26)	4.77 (1.13)	.050
Discounts for different buyers	3.51 (0.87)	4.69 (1.21)	.048
<i>Promotion Related Activities</i>			
Advertising	4.15 (1.47)	4.45 (1.32)	.037
Personal selling	3.02 (1.15)	4.12 (1.19)	.042
Sales promotion	3.11 (1.44)	4.25 (1.20)	.033
<i>Distribution Related Activities</i>			
Establishing strategic distribution outlets	4.02 (1.12)	5.11 (1.02)	.049
Efficient product/service handling	4.52 (1.31)	5.32 (1.17)	.036
Minimizing distribution cost	4.19 (1.21)	5.19 (1.23)	.028
<i>Customer Orientation Activities</i>			
Customer satisfaction	4.39 (1.42)	5.41 (1.24)	.010
Customer service	4.03 (1.19)	5.42 (1.33)	.019
Market research	4.21 (1.23)	5.61 (1.43)	.035
<i>Performance</i>			
Sales	4.73 (1.34)	3.98 (1.01)	.014
Market share	4.06 (1.09)	3.68 (0.78)	.050
Sales growth rate	4.01 (1.01)	3.59 (0.86)	.026
Return on investment	3.03 (0.75)	3.68 (0.74)	.016
Profit margins	3.22 (0.74)	3.85 (0.91)	.041
Employee productivity	3.97 (1.25)	4.91 (1.15)	.037

All means are significant at the 0.05 significance level

SD - standard deviation

Table 2: Tests for Main Effects**Results of Multiple Regression Beta Coefficients (Standard Errors)**

Marketing Activity Measures	Domestic Firms Performance	Foreign Firms Performance
Product activities	0.13** (0.10)	0.17** (0.12)
Pricing activities	n/s	0.09* (0.07)
Promotion activities	n/s	0.13* (0.10)
Distribution activities	0.11* (0.08)	0.15* (0.10)
Customer orientation activities	0.18** (0.14)	0.22** (0.19)
Rsq	0.27	0.42
Adjusted Rsq	0.24	0.40
F	6.09	15.87
Multiple R	0.44	0.60

* $p < 0.05$ ** $p < 0.01$ **Summary and Implications**

Findings from this study reinforce earlier suggestions that foreign companies are more likely to perform marketing activities than their domestic counterparts. On the whole, the results indicate that both foreign and domestic managers do have an appreciation of the importance of marketing principles in Ghana's changing environment and are making efforts to implement

marketing strategies successfully. The results obtained in this study have important implications, not only for Ghanaian executives and expatriates currently operating in the country, but also for entrepreneurs in both developing and industrialized economies who intend to set up subsidiaries or engage in business activities in Ghana in the near future.

Clearly, if foreign firms perceive all elements of the marketing function as important determinants of performance, they are likely to plan their marketing programmes to improve sales, profitability, productivity as well as their competitive position. The fact that these marketing activities are essential not only for gaining a competitive edge but for survival signals long term concerns for indigenous companies which will have to remain competitive in order to survive in an increasingly turbulent marketplace.

It is plausible to suggest that domestic managers may not have a complete appreciation of certain marketing functions, a possible reason why activities such as personal selling, sales promotional techniques, offering discounts for different types of purchasers and analyzing competitors' prices do not receive much attention. Marketing management difficulties may be resolved by providing in-company training on the importance of all marketing functions to a business, with a focus on the customer as central to all marketing activities. Clearly, there is a need for the transfer of marketing knowledge to economic reform developing markets. Where appropriate it is important to adapt and modify Western techniques and tools to match the needs of these new and different cultures. Indeed formal educational procedures which result in the award of academic qualifications would benefit both executives and employees. In this respect, educational grants for such training programmes should be examined, with secondary and tertiary institutions serving as the primary agents of these transfers.

Since the results of this study establish a direct link between marketing implementation and business performance in both foreign and domestic firms, it is crucial that managers appreciate the gains associated with all marketing functions in order to perform them effectively. To improve marketing practice formalized programmes need to be instituted particularly in domestic firms, with the purpose of addressing the under-performance problems evidenced in some of their marketing practices.

In terms of investment potential, the background provided on Ghana's economy suggests that several business avenues are open to prospective investors from both developing and industrialized nations. Setting up branches or subsidiaries can be a cost effective way of commencing business in countries which have floated their currencies and witnessed a steep decline in value relative to currencies of Western economies. Despite the fact that misguided policies of the past era do plague the economy, a long term perspective can provide significant benefits. Moreover, domestic managers who already acknowledge the significance of marketing practice but are not performing certain functions well will most likely welcome joint ventures with foreign firms which can design and implement these activities effectively.

In conclusion, this research has provided additional insight into the nature and character of marketing practice in foreign and domestic firms in a typical transition developing economy. Considering the growing scholarly attention given to marketing practice in economic reform developing nations in the last decade, and the increasing expatriate interest in emerging developing markets, these findings are of significance not only to scholars and practitioners of development but also to entrepreneurs who wish to invest in these reforming markets. To further enrich the findings of this study, additional research may be conducted to investigate internal factors which influence the performance of marketing functions in businesses. Such findings would enhance our knowledge of the organizational forces that drive marketing orientation in firms operating within developing economies and offer guidelines on how marketing performance could be improved in these nations. Finally, qualitative research methods may be employed to compare the marketing practices of foreign firms in their home countries and abroad to establish the extent to which these activities are affected by environmental conditions.

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CHAPTER 11

Market Orientation and Performance: Empirical Tests in a Transition Economy, 1998, Journal of Strategic Marketing, volume 6, number 1, pp 25-46

Abstract

Although the management literature is replete with empirical studies on market orientation, a review of the evidence so far suggests that the majority of studies have been based on industrialised countries. Despite the fact that the business environments in many developing economies are rapidly undergoing transformation, thereby, influencing the metamorphoses of firms from production to marketing orientation, empirical research relating to market orientation in emerging countries remains scant. In an attempt to provide further insight into the global importance of market orientation, this study investigated its link with business performance in a liberalised developing country. Potential influences of market dynamism, competitive intensity and market growth on this relationship were also examined. The results indicate that although market orientation does not appear to have a direct impact on sales growth or return on investment, the competitive environment does influence the market orientation-performance link. Directions for future research, limitations of the study and managerial implications of the findings are subsequently identified and discussed.

Introduction

A great deal of attention has recently been focused on the concept of market orientation in the management literature. The renewed academic and practitioner interest in this subject is not surprising, since market orientation is perceived as a cornerstone of the marketing concept. It represents the foundation of high-quality marketing practice and the prevailing wisdom is that a market oriented culture is crucial for superior performance and long-term success in the highly competitive environment of modern day businesses (Narver and Slater, 1990; Jaworski and Kohli, 1993). Despite the importance and resurgence of interest in the market orientation concept, systematic inquiries for a richer understanding of the construct only recently begun following the efforts of Kohli and Jaworski (1990) and Narver and Slater (1990). These two seminal works built on previous conceptual articles relating to marketing (eg. Shapiro, 1988; Webster, 1988; Deshpande and Webster, 1989), however, recent years have witnessed an increasing number of empirical studies based on the market orientation concept (Diamantopoulos and Hart, 1993; Deng and Dart, 1994; Atuahene-Gima, 1995; Pitt *et al*, 1996).

A review of the literature reveals a number of studies which have investigated the links between market orientation and various correlates. For instance, it has been found that market orientation leads to greater customer satisfaction (Siguaw *et al*, 1994), *esprit de corps* and organisational commitment (Jaworski and Kohli, 1993). Moreover, a growing body of empirical research reports a positive association between measures of market orientation and business performance (Narver and Slater, 1990; Ruekert, 1992; Deshpande *et al*, 1993; Jaworski and Kohli, 1993; Slater and Narver, 1994; Atuahene-Gima, 1995; Pelham and Wilson, 1996; Pitt *et al*, 1996). In this context, there is evidence that external environmental factors (eg. market dynamism and competitive intensity) influence the market orientation-performance relationship (Slater and Narver, 1994; Greenley, 1995) and a firm's market oriented actions (Diamantopoulos and Hart, 1993; Pelham and Wilson, 1996).

Although the importance of the market orientation concept has fostered a steady stream of research in the pertinent literature, what is noteworthy about the evidence so far, is that the majority of empirical studies on the subject have been conducted in industrialised economies. Relatively little effort has focused on developing nations, despite the fact that a number of these countries are making economic system transitions from centralised economies to a greater free-market orientation. Due to the economic and structural changes taking place in several economic reform developing nations, their business environments are rapidly evolving and, thereby, influencing the metamorphoses of firms from production to sales and to market orientations. These developments suggest that such emerging economies can provide appropriate grounds for robust tests of a market orientation and the links with its various correlates (Bhuain, 1996).

In view of this limiting empirical consideration in the management literature, the current study is based on market orientation among firms in emerging countries. We focus the context of our investigation by selecting Ghana whose economy provides a sound example of emerging markets in the developing world. Specifically, this research aims, firstly, to examine the extent of market orientation prevalent among firms operating in Ghana as they attempt to adapt to the transformation which economic liberalisation has brought about in the business environment; secondly, to investigate potential differences in performance levels of firms based upon the degree of market orientation; and, thirdly, to explore the moderating effects of the external environment on the market orientation-performance relationship. The study contributes to existing literature by building on the limited empirical evidence concerning a

relationship between market orientation and performance; furthermore, it extends our emerging knowledge of market orientation to non industrialised business environments, particularly emerging economies, which have been the focus of growing attention for scholars and practitioners of development.

The paper first reviews the literature which addresses market orientation and performance, discusses the importance of these concepts to firms operating in emerging nations, and highlights the limited empirical research on the subject. A series of hypotheses are then formulated in relation to the link between market orientation and performance, as well as the potential effects of external environmental influences on the hypothesised relationship. The remainder of the article reports the findings of an empirical investigation of these hypotheses among Ghanaian businesses. Finally, managerial implications of the findings are highlighted, and future research directions as well as study limitations are discussed.

Background to the Study

The Ghanaian Economy and Consumer

After gaining independence, Ghana, like many other African countries made significant efforts to modernise its industrial structure through public investment in large sized industries. The government often led these programmes for a lack of strong indigenous entrepreneurial expertise and to avoid dependence on foreign investors. Nonetheless, insufficient attention to economic viability and market prospects resulted in huge excess capacity and many firms were only able to survive through large subsidies or government protective measures. A sharp economic decline in the late 1970s and early 1980s led to foreign exchange scarcities which adversely affected production in large industrial sectors. Although government protection existed in state-owned enterprises, it was not surprising that many large private firms reduced employment by a third during this period (Republic of Ghana, 1989). In order to tackle some of the difficulties that had led to this prolonged economic deterioration, Ghana subscribed to the International Monetary Fund's (IMF) structural adjustment programme (SAP) in 1983. This comprised numerous reforms which were instituted to boost trade and investment. Among these were liberalisation of the money market and import licensing, privatisation of government-owned organisations, removal of foreign exchange restrictions and relaxation of price controls. It is no secret that these reforms have transformed the environments in which most businesses currently operate and, consequently, influenced market oriented practices of

many firms with the consumer being central to market focused activities. Clearly, an emphasis on market orientation in a transition economy is logical only if consumer behaviour demands this change. Generally, in such dynamic markets which are sometimes characterised by uncertainty, consumers tend to be more prudent in their purchasing behaviour. Recent studies suggest that in Ghana's transition economy, factors such as product quality and customer orientation strategies are important to the customer (eg. Appiah-Adu, 1997). For instance, car manufacturers such as Toyota have built a reputation for quality by developing stronger bodies and more resistant shock absorbers to withstand rough roads. Moreover, market research conducted by detergent manufacturers reveals that in addition to a pleasant aroma, consumers value longevity as important characteristics of their products. Not only do consumers tend to compare alternatives before purchasing, they also take fewer risks by buying higher quality or more durable goods. Generally, consumers prefer the availability of a wide range of alternatives in order to be better positioned to make quality choices. Due to the harsh environmental conditions in Ghana, products/services which demonstrate greater value to consumers are likely to provide a competitive edge. The above findings imply that the buyer behaviour of Ghanaian consumers has been influenced by the changes taking place in the marketplace. Thus, it is expected that some businesses in Ghana will respond to this transformation by subscribing to the basic tenets of a market orientation in an effort to develop or sustain a competitive advantage.

Theoretical Background

Market Orientation Concept

The importance of placing the needs of markets at the forefront of organisation concerns has led to a steady stream of research on the concept of market orientation and what it entails. Indeed, since the 1950s market orientation, based on the marketing concept, has been advocated, challenged, defended, and re-espoused (Felton, 1959; Liu, 1995). In the marketing and strategy literature there are two dominant conceptualisations of market orientation. Firstly, Kohli and Jaworski (1990, p.6) operationalise the implementation of the marketing concept as market orientation, that is, *the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organisation-wide responsiveness to it*. A complementary definition by Narver and Slater (1990, p.21), is based on the notion that market orientation comprises three behavioural components, namely, customer and competitor orientations and inter-functional coordination; *the organisation culture that most effectively and efficiently creates the*

necessary behaviours for the creation of superior value for buyers. These two concepts are integrated by Ruekert (1992) who suggests that market orientation is characterised by the gathering and use of information from customers as well as the development and implementation of a strategy to meet customer needs and wants.

Market Orientation in Transition Developing Markets

One of the significant shifts in management consideration within the current marketplace is a realisation that firms often fail to develop a focus on their customers and markets. A market focus entails orienting the operations of an organisation to satisfy customer needs and wants. The change in management thought toward the customer has been spurred by a more competitive international business environment, rapid changes in technology which have shortened product life cycles, and the increasing power of the consumer (Webster, 1988).

In the last decade, Ghana, like many other rapidly developing countries, has liberalised her economy by embarking upon an Economic Reform Programme (ERP). The country has nurtured an open market economy which, in turn, has fostered a competitive business environment. Due to the transformation that has taken place in the marketplace, management attitudes toward customers and markets are changing. Many organisations are developing formal programmes to enhance quality in production, improve the responsiveness of services offered and promote a renewed commitment to serving the customer. There is evidence to demonstrate that the current scenario has led to an increase in performance of marketing activities by firms (eg. Dadzie *et al*, 1988). These practices reflect the conscious efforts by management to develop and maintain a market orientation within the firm.

A major component of a firm's market orientation in a transition economy is the importance it places on customer needs and wants. Golden *et al* (1995) argue that one indicator of an organisation's level of market orientation is the attention it devotes to market research. This is because in transition economies, a greater emphasis on market research reflects an organisation's recognition of the transformation in economic systems and consequences of a free, competitive business environment. Likewise, an increased focus on customer satisfaction or new product development suggests that the business is committed to addressing current and future customer needs

The economies of developing countries are often characterised as oligopolistic and a sellers' market (Sadri and Williamson, 1989). However, the restrained marketing practices associated with old centralised economies may not be applicable in the transitional environments of many emerging economies. The shift to a buyers' market will lead to environments in which sellers vie for the custom of buyers and, hence, sound strategies need to be designed in order for firms to be effective in the marketplace. In fact, recent research findings on Ghanaian firms suggest that business enterprises are becoming increasingly innovative in a market that is characterised by weak demand, growing competition, low cost competing imports and escalating operating costs (Steel and Webster, 1992). As the economies of emerging countries continue to expand and develop both market and competitive structures, buyers' needs and expectations will also grow with time, making customer and market oriented strategies a basis of competitive advantage.

Hypotheses

Market Orientation-Performance Link

Academic scholars and business practitioners have continuously advocated the importance of developing a market orientation. Proponents argue that such an orientation emphasises competitiveness based on identifying customer needs and offering products which are different from, or better than the competition. Kohli and Jaworski (1990) suggest that a market orientation appears to provide a unifying focus for the efforts of employees and departments within the firm, thus leading to superior performance. According to Narver and Slater (1990), market orientation is the organisational culture that most effectively and efficiently creates the necessary behaviours for developing superior value for customers, thus, continuous superior performance for the firm.

It is contended that market orientation is important to firms because of its positive association with performance. Although research studies from a few countries have found a positive link (eg. Japan - Deshpande *et al*, 1993; Taiwan - Chang and Chen, 1994; Australia - Atuahene-Gima, 1995; Malta - Caruana *et al*, 1995; Saudi Arabia - Bhuaïn, 1996; UK - Pitt *et al*, 1996), the majority of studies reporting a positive association are based on US firms (Narver and Slater, 1990; Ruekert, 1992; Jaworski and Kohli, 1993; Slater and Narver, 1994; 1995). Narver and Slater's (1990) study was based on a sample of 140 strategic business units (SBUs) from a single, US organisation to examine the relationship between the extent of

market orientation and business unit performance for both commodity and non commodity firms. A positive relationship between market orientation and return on assets (ROA) was established in both types of organisations. Similarly, Jaworski and Kohli's (1993) findings were based on a number of SBUs in a limited number of US companies.

In an emerging market such as Ghana's, it is market oriented firms which are likely to devise customer and competitor focused strategies. Marketing operations and practices will take into consideration customer attitudes and benefits as well as the provision of required products and services at the right time and place. Such firms will endeavour to obtain a competitive advantage through astute strategic pricing techniques, sound logistical practices and close collaboration with suppliers and intermediaries. Moreover, market oriented firms are likely to engage in active marketing research to generate information needed for effective market decisions while adopting a long term focus on marketing planning.

Although caution must be exercised when generalising to developing market contexts the findings of research studies based predominantly on samples of firms in developed countries (Douglas and Craig, 1983), the results of Caruana *et al* (1995), Bhuain (1996) and Pitt *et al* (1996) clearly identified a positive link between market orientation and business performance in developing economies. The last mentioned authors concluded that this relationship extends to organisations in different industries and countries irrespective of culture or level of economic development. In addition, the literature establishes a manifest link between a firm's level of market orientation and the realisation of organisational or performance objectives, though this positive association may take years to emerge or be hidden in yearly fluctuations. These previous research findings in concert with the theory based assertions of the marketing concept uphold our first hypothesis:

H1: The greater the overall degree of market orientation the greater the level of performance of a firm operating in Ghana's current business environment.

The External Environment and Market Orientation-Performance Link

There has been a long tradition of support for the assumption that environmental factors influence the effectiveness of organisational variables. Thus, environmental turbulence is perceived in the management literature as an important construct in the planning and implementation of strategy (Lusch and Laczniak, 1989; Slater and Narver, 1994; Golden *et al*,

1995). Indeed, several studies have investigated the association between different environmental factors and established the effects of moderating influences on organisational variables. For example, Snow and Hrebiniak (1980) and McKee *et al* (1989) identified a significant impact of market dynamics on the effectiveness of strategic orientation. Consequently, researchers argue that firms should monitor their external environment when considering the development of a strong market oriented culture (Houston, 1986; Kohli and Jaworski, 1990). To determine the influence of the external environment on market orientation in transition economies, Golden *et al* (1995) examined four factors: demand changes; product obsolescence; competitive pressures; and, product technology. These variables appear to mirror, respectively, four external factors namely: market growth/demand; market turbulence; competitive intensity; and, technological turbulence which were identified as potential moderators of the market orientation-performance link by Kohli and Jaworski (1990). Thus, in investigating external environmental influences on the market orientation-performance relationship among Ghanaian firms, all four potential moderators which were identified in the course of Kohli and Jaworski's (1990) field interviews, and subsequently reflected in Golden *et al's* (1995) study of a transition economy were considered. A minor change in this study is that market and technical turbulence are combined as a single construct, termed as market dynamism. This is because the influence of technology may not be as pervasive in developing countries compared with industrialised nations and such terminology is consistent with Golden *et al's* (1995) approach for examining the impact of environmental influences on market orientation in transition economies.

Market dynamism: When a firm serves a fixed set of customers with stable preferences, a market orientation is expected to have negligible impact on performance because minimal modification to a marketing mix is required to satisfy stable preferences of a given set of customers (Kohli and Jaworski, 1990). In a transition economy, managerial perception of an increasingly dynamic market environment could influence firms to emphasise the development of a market orientation (Golden *et al*, 1995) because an external focus enables firms to satisfy customers, monitor competitors and segment the market effectively in highly dynamic market environments. Hence, the following hypothesis.

H2: The greater the extent of market dynamism, the greater the positive impact of market orientation on performance.

Competitive intensity: In a transition economy, one of the features of change is the proliferation of businesses and increased competition in the marketplace. Greater competition leads to a variety of choices for buyers, thus, a firm must identify customers' changing needs/preferences and respond accordingly (Steel and Webster, 1992). On the contrary, a business with a monopoly in the marketplace may perform well, irrespective of changes instituted to satisfy customer preferences (Houston, 1986). The implication is that the benefits offered by a market orientation are greater for firms operating in a highly competitive sector than for their counterparts in less competitive sectors. Thus, the third hypothesis.

H3: The greater the extent of competitive intensity, the greater the positive impact of market orientation on performance.

Market growth: In transition economies characterised by strong demand and market growth, a firm may still do well with minimal market oriented efforts. On the other hand, in markets where demand is weak, customers are expected to emphasise value and firms must monitor and respond to customer needs in order to be competitive (Okoroafo and Kotabe, 1993). However, as noted in Kohli and Jaworski's (1990) field interviews, the irony is that marketing appears to require more resources precisely when the business has limited resources due to weak market conditions. Based on the preceding observations, our last testable hypothesis is:

H4: The lower the rate of market growth, the greater the positive impact of market orientation on performance.

Performance

This is formally operationalised with all the other constructs in the methodology section. Although performance as a concept can have a variety of meanings (eg. short or long term, financial or organisational benefits), it is broadly viewed from two perspectives in the extant literature. Firstly, there is the subjective concept which is primarily concerned with performance of firms relative to their own expectations (Pelham and Wilson, 1996) or relative to the competition (Verhage and Waarts, 1988; Golden, 1992). The second method is the objective concept which is based on absolute measures of performance (Chakravarthy, 1986; Cronin and Page, 1988). Studies that have adopted both concepts reported a strong association between objective measures and subjective responses (Venkatraman and Ramanujam, 1986; Robinson and Pearce, 1988). Jaworski and Kohli (1993) utilised both methods and obtained reliable responses for only their judgmental (subjective) dimensions. In this study, the

subjective approach was employed due to the difficulty in obtaining objective data from documentary sources and also because of the reluctance of organisations to divulge such information which was classified as confidential.

Research Methodology

Data

Subjects of the present study were managing directors of manufacturing and service firms operating in Ghana. Data for this research were gathered using self-administered questionnaires following a pretest with a group of business executives in Ghana and subsequent refinement of the instrument. The questionnaire sought information on respondents' perceptions on market orientation, external environmental influences on their organisations and firm performance relative to expectations. The sample comprised 200 large organisations which were randomly selected from the *Ghana Business Directory* (1996). The items utilised in the questionnaire were based on a 7-point Likert scale (e.g., 1 = strongly disagree to 7 = strongly agree). A questionnaire and covering letter were sent to managing directors of the selected firms, and a follow-up questionnaire was mailed to those who did not respond to the initial survey. From the first and second mailings, 56 and 22 responses were received respectively. A total response of 78 was obtained, yielding a usable response of 74 fully completed mailed questionnaires. The final response rate of 37% compares favourably with previous research in the area (cf. 33% for Akaah *et al*, 1988 and 26% for Okoroafo and Torkormoo, 1995). To test for non response bias, early and late respondents were compared on a number of key characteristics. There were no significant differences between the two groups at a 0.05 level (Armstrong and Overton, 1977).

Measures of Constructs

To be able to explore the linkage between market orientation and performance as well as the influence of environmental effects, a number of measuring instruments were utilised.

Market Orientation. This construct was derived from Golden *et al*'s (1995) measures of market orientation in transition economies as well as Narver and Slater's (1990). In order to obtain a suitable instrument for the developing country context, interviews were conducted with six business executives and 34 completed questionnaires involving an initial survey were analysed to refine the scale (Churchill, 1979). One question required respondents to provide

an overall impression of the level of market orientation of their organisations, on a 7-point scale (1 and 7 indicating very low and very high levels of market orientation respectively). The final 11 item construct employed in this study is presented in Table 1 with all other multi-item constructs.

Moderator Variables. The average annual rate of growth of market size over the last 3 years represents *market growth* (Kohli and Jaworski, 1990). *Market dynamism* assesses the degree of change in customer needs, products/services, production/distribution processes and competitors' strategies (Jaworski and Kohli, 1993; Pelham and Wilson, 1996). *Competitive intensity* reflects the nature and impact of the competition or business environment on a firm (Jaworski and Kohli, 1993; Pelham and Wilson, 1996).

Control Variables. Eight control variables were drawn from Slater and Narver's (1994) study for this research. First, all the three possible moderators were perceived as control variables. Moreover, five additional factors were included. *Relative size* represents firm size, measured as sales volume relative to the largest competitor (Buzzell and Gale, 1987). A positive relationship is expected between a firm's size and performance. *Relative cost* is a measure of per unit operating costs, compared to the largest competitor within its main market segment (Scherer, 1980). High cost denotes a cost disadvantage, hence, a negative association is expected between relative cost and performance. *Customer power* reflects the ability of customers to obtain lower prices from their suppliers (Narver and Slater, 1990). Strong customer power indicates lower profits for suppliers, consequently, a negative relationship is expected with performance. *Ease of market entry* represents the possibility of new market entrants earning satisfactory profits in their principal market segments in the first three years (Scherer, 1980). Easy entry indicates a disadvantage to current competitors (Porter, 1980), and a negative link is expected with performance. *Competitor concentration* reflects the degree of monopolistic power within the marketplace (Porter, 1985). Economic theory suggests that high concentration should lead to better performance for the major competitors as they recognise the benefits of avoiding price competition (Slater and Narver, 1994). As *market dynamism* (technical and market turbulence) calls for changing strategies and production capability to enable firms to stay abreast with change, a negative association is expected with performance. It is expected that *intense competition* will be negatively associated with performance. Because *market growth* signifies benign environments, a positive relationship is expected with performance.

Performance. The specific dimensions of performance with which we were concerned were adapted from Slater and Narver's (1994) study and are as follows: sales growth and return on investment (ROI). Thus, performance was based upon a managing director's subjective response to questions assessing whether results of sales growth and return on investment (ROI) were above or below expectations over the last 3 years. The respondent was asked to assess the business performance over the past 3 years on a 1 to 7 scale from far below to far exceeds expectations, respectively. This approach allowed for greater comparability across types of industries and situations, with varying standards of acceptable performance (Pelham and Wilson, 1996). Subjective measures of performance are frequently used in strategy research and have been shown to be reliable and valid (Dess and Robinson, 1984).

Analysis and Results

Reliability Analysis

The reliability of the market orientation scale was assessed by utilising Cronbach's coefficient alpha (Nunnally, 1967; Churchill, 1979). These results are reported in Table 1. The overall coefficient alpha of 0.74 confirms scale reliability, although this score is marginally lower than those obtained in studies conducted in developed economies (cf. Greenley, 1995). Table 1 also presents the alpha score if each item is removed from the construct. Since these values are close to the overall alpha score, it implies that alpha will not be increased by deleting any of the items, adding credence to the scale reliability.

Validity Tests

Assessment of content validity of the scales was less quantitative and more qualitative. The principal concerns were the degree to which scale items captured a construct's domain and extent to which the construct and its domain were explicated (Parasuraman *et al*, 1988). The steps followed by Narver and Slater (1990) and Jaworski and Kohli (1993) are consistent with Churchill's (1979) for developing psychometric scales. Face and content validity checks were performed on the constructs to ensure that scale items would be meaningful to the sample and capture issues which were intended to be measured. These checks were performed with a group of Ghanaian business executives via personal interviews. Further evidence of the validity of the market orientation measure is provided in Table 2 where an attempt is made to examine the extent to which it correlates highly with other methods designed to measure the same construct (Churchill, 1979). Regression of the sum of items for market orientation with

a measure of the overall impression of management's perception of the market orientation of their firm indicates an R^2 (coefficient of determination) of 0.36 significant at $p < 0.001$ level in the Ghana sample. This suggests that our 11 item construct is valid for measuring market orientation among Ghanaian organisations.

Main Effects on Performance

Possible influences on performance were examined with multiple regression analysis. Two equations were developed; one with sales growth and the other with ROI as the dependent variable. Each equation included the entire set of independent variables, all of which were entered into the equations at the same stage. Results of the analysis are presented in Table 3.

The regression coefficients for market orientation are not statistically significant in either equation, implying that there is no direct impact of market orientation on sales growth or ROI. Regarding environmental influences on performance, there is mixed support for our expectations. First, relative size is positively associated with both performance indicators which suggests that performance enhancement in terms of sales growth and ROI is realised as Ghanaian firms become larger relative to their competitors. Second, relative cost is negatively related to both performance measures, implying that sales and ROI improve as costs relative to competitors reduce. Third, market growth is positively linked to sales growth but not with ROI. Thus, the strength of the economy appears to have an influence on sales growth.

Table 1 - Reliability Analysis for Multi - Item Scales

Scale Items	Item-to-total Correlation	Alpha if item Deleted
<i>Market Orientation Coefficient Alpha for Scale 0.74</i>		
Creating customer value	0.48	0.72
Understanding customer needs	0.41	0.74
Emphasis on customer satisfaction	0.36	0.73
Level of customer service	0.44	0.72
Importance of market research	0.36	0.72
Responding rapidly to competitors' actions	0.47	0.74
Top managers discuss competitors' strategies	0.39	0.74
Targeting opportunities for competitive advantage	0.46	0.73
Functional integration in strategy	0.42	0.73
All functions contribute to customer value	0.41	0.74
Importance of new product development	0.39	0.74
<i>Market Dynamism Coefficient Alpha for Scale 0.70</i>		
In our market customer needs change constantly	0.29	0.70
In our market products/services become obsolete rapidly	0.32	0.70
The strategies/actions of our competitors change constantly	0.38	0.69
Product/distribution processes change constantly	0.27	0.68
<i>Competitive Intensity Coefficient Alpha for Scale 0.71</i>		
Competition in our industry is cut throat	0.47	0.71
The business environment is a threat to our survival	0.42	0.70
Price competition is the hallmark of our industry	0.39	0.69
Our competitors are relatively weak	0.21	0.71

Significant level for item-to-total correlations ($p < 0.05$)

Table 2 - Validity Analysis for Market Orientation Construct

Dependent Variable <i>Overall Impression of Market Orientation</i>		
Independent Variable	Standardised Regression Coefficient (Beta)	<i>p</i> value
<i>Market Orientation Scale</i>	0.28	0.021

Rsq = 0.36

Adjusted Rsq = 0.33

Significance = 0.001

Table 3 - Tests for Main Effects**Results of Regression Analysis: Standard Coefficients (Standard Errors)**

	<i>Sales Growth</i>	<i>ROI</i>
Market orientation	n/s	n/s
Market dynamism	n/s	n/s
Competitive intensity	n/s	n/s
Market growth	0.14** (0.11)	n/s
Relative size	0.19* (0.08)	0.27** (0.17)
Relative cost	-0.28* (0.12)	-0.31** (0.21)
Ease of market entry	n/s	n/s
Competitor concentration	n/s	n/s
Customer power	n/s	n/s
<i>F</i>	6.28	16.80
Rsq	0.31	0.46
Adjusted Rsq	0.28	0.43
Multiple R	0.49	0.67

* $p < 0.05$ ** $p < 0.01$

Moderators of the Market Orientation-Performance Relationship

Notwithstanding the absence of main effects, influences from moderator variables may exist as postulated in hypotheses 2 through 4. To determine these effects, a moderated regression analysis was utilised (Sharma *et al*, 1981; Schoonhoven, 1981; Arnold, 1982; Hellevik, 1984; Golden, 1992). This approach calls for the inclusion of a multiplicative interaction item in the regression analysis:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_1X_2 + b_nX_n + e \quad (1)$$

X_1X_2 denotes the multiplicative interaction term, X_1 signifies market orientation and X_2 represents a moderator variable. A moderating influence is exhibited when the regression coefficients of X_1 , X_2 and the interactive term (b_3) are all statistically significant. Where a moderator effect is detected, further analysis can be employed to determine any changes in the nature of the association between independent (market orientation) and dependent variables (sales growth or ROI) over a range of the moderator variable. The following partial derivative of equation 1 can be used for this purpose:

$$dY/dX_1 = b_1 + b_3X_2 \quad (2)$$

b_1 and b_3 are unstandardised coefficients (Schoonhoven, 1981). On the basis of the significance of the multiplicative interaction terms' regression coefficients, the analysis for each performance indicator revealed one moderating influence. The results are presented in Tables 4a and 4b, where only the independent variables with significant coefficients are reported. Multi-collinearity does not unduly influence the results of these analyses because the variance inflation factor (VIF) associated with each independent variable is less than the cut-off point of 10 suggested by Neter *et al* (1983). Prior to forming the interaction terms all predictors were mean-centred (Jaccard *et al*, 1990). Tables 3, 4a and 4b indicate that the difference between variance explained in the main effect model and the model incorporating the interaction term (adjusted R^2 scores) is 3% for sales growth performance and 2% for ROI performance. At first sight, the improvement in variance explained by models including interaction terms may seem rather marginal, however, this finding may be attributed to the moderate respondent size.

Sales growth. The regression analysis with sales growth as the dependent variable is as follows:

$$Y = 0.94 - 0.48X1 - 0.19X2 + 0.28X3$$

where Y = sales growth; X1 = market orientation; X2 = competitive intensity; X3 = (X1X2) = multiplicative interaction term. The above equation reveals a relationship between market orientation and sales growth, as a consequence of including an interaction term into the equation, as opposed to the main effects investigation which did not exhibit any significant impact of market orientation. This relationship is moderated by competitive intensity, which was assessed on a scale of 1 to 7, where 1 denoted minimal change in competitive activities and a relatively benign marketplace. The form of this moderation can be obtained by estimating the partial derivative applying the unstandardised regression coefficients as follows:

$$dSG/dMO = -0.48 + 0.28CI = 0 \quad (3)$$

$$CI = 0.48/0.28 = 1.71 \quad (4)$$

where SG is sales growth, MO is market orientation and CI is competitive intensity. The figure for CI in equation 4 represents an inflection point in the moderator influence. When values of competitive intensity in excess of 1.71 are inserted in equation 3, they yield positive answers, while values below 1.71 give negative answers. This suggests that for medium to high levels of competitive intensity market orientation is positively related to sales growth, whereas for low levels of competitive intensity market orientation is negatively related to sales growth.

Return on investment. With ROI as the dependent variable the regression equation is as follows:

$$Y = 2.42 + 0.44X1 - 0.27X2 - 0.34X3$$

where Y = ROI; X1 = market orientation; X2 = market dynamism; X3 = (X1X2) = multiplicative interaction term. These findings indicate a link between market orientation and ROI when an interactive term is included. In this case, the moderator is market dynamism, which was assessed on a scale of 1 to 7, with 1 signifying little diversity in

market/technological changes required to meet customer needs. The form of this moderation is:

$$dROI/dMO = 0.44 - 0.34MD = 0 \quad (5)$$

$$MD = 0.44/0.34 = 1.29 \quad (6)$$

where MO is market orientation and MD is market dynamism. When scores of market dynamism in excess of 1.29 are substituted in equation 5, they give negative answers while values below 1.29 yield positive answers. This indicates that for medium to high levels of dynamism market orientation is negatively linked with ROI. On the contrary, market orientation is positively related to ROI in conditions of low market dynamism.

Table 4a

Results of the Moderated Regression Analysis: Standardised Regression Coefficients

Independent Variables	Sales Growth	
	t	Beta
Market Orientation	2.25	0.39*
Competitive Intensity	2.14	0.48*
Interaction Term	2.03	-0.53**
Relative Size	1.97	0.62*
Relative Cost	2.18	0.44**
Market Growth	3.19	0.21***
F	8.21	
R ²	0.34	
Adj R ²	0.31	
Multiple R	0.54	

* p ≤ .05

** p ≤ .01

*** p ≤ .001

Note: Only significant predictors have been listed

Table 4b**Results of the Moderated Regression Analysis: Standardised Regression Coefficients**

Independent Variables	ROI	
	t	Beta
Market Orientation	1.98	0.70**
Market Dynamism	2.10	0.51*
Interaction Term	-1.87	-0.73***
Relative Size	2.52	0.14*
Relative Cost	-2.37	-0.35**
F	17.90	
R ²	0.48	
Adj R ²	0.45	
Multiple R	0.69	

* p ≤ .05

** p ≤ .01

*** p ≤ .001

Note: Only significant predictors have been listed

Discussion

The remainder of the paper discusses the hypotheses tested, implications of our findings for managers and academic researchers, as well as study limitations. These results from a liberalised developing economy indicate that market orientation may not have a direct impact on performance in all countries, regardless of culture or level of development. It appears that the postulated relationship is contingent upon environmental conditions. Due to the non significant impact of market orientation on performance, hypothesis 1 is rejected. This is inconsistent with the findings of similar research in developing economies (eg. Caruana *et al*, 1995; Bhuain, 1996), but is partially supported by Golden *et al's* (1995) study in a country undergoing transition from a centralised economy to a free market. Due to the moderator effects identified in market dynamism and competitive intensity, our results lend credence to hypotheses 2 and 3, though the trend detected for market dynamism is opposite to that postulated. On the other hand, hypothesis 4 is rejected because market growth was not found to be a moderator.

Moderator Influences

Sales Growth. The finding regarding a positive relationship between market orientation and performance (sales growth) only at levels above 1.71 on the competitive intensity scale appears to be consistent with received wisdom. This implies that at very low levels of competitive intensity, firms operating in a transitional economy such as Ghana's do not devote much attention and resources to enhance their degree of market orientation. Such conditions are usually characterised by a fair predictability in competitors' market tactics, little hostility among competitors and a narrow range of competitive activities. Hence, businesses do not have to exert much effort to satisfy customers or outwit competitors in order to enhance sales. It is instructive to point out that, due to the low propensity towards market orientation by businesses in developing countries, it takes a fairly strongly competitive environment for organisations to respond to market oriented behaviours. With growing competition in the marketplace and an increase in competitive activities, firms will be driven to increase their market orientation, firstly, to counteract the strategies of competitors and, secondly, to solicit customers because of the wide variety of alternatives which will become available. It has already been established that firms in Ghana are adopting a proactive position in attracting consumers through customer orientated strategies and other characteristics associated with a market orientation (Blankson and Appiah-Adu, 1996). As indicated by Steel and Webster (1992), the emerging crop of Ghanaian executives is developing a positive attitude to a market orientation characterised by a growing emphasis on innovativeness and a drive to remain competitive in order to survive in the ever increasingly dynamic environment. According to the author, this observation does not only apply to large organisations but is also evidenced in the small business sector which traditionally, has had a low inclination toward market oriented activities.

ROI. The finding concerning a positive relationship between market orientation and performance (ROI) only at levels below 1.29 on the market dynamism scale appears to contradict conventional wisdom. A possible explanation is that in conditions of medium to high turbulence, ROI performance enhancement can be best realised if major changes are instituted in marketing operations in order to satisfy consumers' evolving needs (Greenley, 1995). It is possible that due to the introduction of expensive market/technology based adjustment programmes, expenditure utilised in revamping marketing operations is very high relative to income in highly turbulent conditions. Coupled with a competitive business environment in which sales can hardly be increased, the outcome will be a decline in profits.

Hence, it may be advisable to adopt an incremental approach to marketing operations, instead of reacting impulsively to constantly changing market conditions. It is plausible to suggest that the transition in Ghana's current economic climate has led to a turbulent environment in which many firms possibly take a longer period to achieve increased returns on investment as they learn to find solutions to multi-faceted problems caused by factors such as demand changes, low-cost competing imports and rising operating costs. Generally, the non significant impact of market orientation on both performance measures may imply that though the marketing concept is widely accepted in developing countries, problems relating to its effective implementation still exist. This finding may also suggest that despite the gradual shift to free market economies, many transition developing economies are not yet predominantly a buyers' market. Nonetheless, as argued by Okoroafo and Kotabe (1993), in the long run, market orientation may become an important factor among firms in economic reform developing nations as more businesses enter the market and competition increases.

Conclusions and Implications

The aim of this research was to empirically investigate the effect of market orientation on dimensions of performance (sales growth and ROI) in a liberalised developing economy, and whether this association was influenced by the competitive environment. From this sample our findings suggest that, on the whole, market orientation does not directly affect sales growth and ROI performance among Ghanaian firms. Nevertheless, there is an indirect impact through environmental variables such as competitive intensity and market dynamism. More precisely, market orientation seems to exert a greater, positive influence on sales growth when competitive intensity levels are medium to high. In addition market orientation has an increased effect on return on investment in conditions of low market dynamism. This study contributes to existing knowledge because it fills a void in the literature by heeding to recent calls for scholars to explore the effect of market orientation on performance in other national cultures (Narver and Slater, 1990; Deshpande *et al*, 1993) in order to enhance our confidence in the importance of its universal power. The study complements recent efforts to extend the knowledge of scholars regarding the influence of market orientation on organisational variables to non industrialised countries (Caruana *et al*, 1995; Bhuain, 1996) and transition economies (Golden *et al*, 1995).

From a methodological viewpoint, this study utilised theoretical concepts from a broad literature base to investigate the hypotheses established. In this context, our market orientation

construct was refined to suit the developing economy context. The market orientation scale developed is based on multiple concepts relating to customer orientation, competitor orientation, interfunctional coordination and intelligence generation, all of which are crucial in a changing marketplace. Ultimately, a shift to a buyers' market necessitates activities which are centred around the customer, while growing competition indicates the need to be alert to competitors' actions. Construct items such as functional integration in strategy, discussing competitors' strategies and responding rapidly to competitors actions reflect an appreciation of information sharing and responsiveness to the intelligence gathered. Market research and new product development which are both important and related critical factors in transition economies (Okoroafo and Torkornoo, 1995) are also accounted for in the market orientation measure. The usefulness of the construct is enhanced due to an appreciation of sound customer orientation practices by the generally more enlightened Ghanaian consumer and the ability of Ghanaian managers to understand and provide valuable feedback which led to the development of the modified instrument. While these factors demonstrate the potential efficacy of the measure, a limitation may stem from the fact that lip service is not matched by effective implementation of these activities, hence, limiting the potential in establishing a link between market orientation and performance. Another limitation may relate to the construct's applicability across transition developing countries with varying levels of development, economic profiles, or across firms characterised by different sizes, industry sectors and ownership profiles.

Managerial Implications

Our findings offer significant implications to managers of firms which are currently operating in developing nations, and more specifically in Ghana. These results are also relevant to entrepreneurs in both developed and developing economies who intend to conduct business activities in Ghana. The first implication relates to the finding that market orientation does not have a direct impact on performance. In other words, the contention that a subscription to market orientation enhances business performance in all environments (Narver and Slater, 1990, 1994; Jaworski and Kohli, 1990; 1993; Pitt *et al*, 1996) is not supported here. On the other hand, it appears that market orientation may be more appropriate in certain conditions and, thus, better suited to firms operating within such environments. Nevertheless, the conclusions of this study must be read in light of certain intervening variables. For instance, there could be lagged relationships between market orientation and the performance indicators which were not detected due to the cross-sectional nature of this study and, possibly, because

the three year period of performance assessment was not long enough to capture improvements in performance. Indeed, heavy investments involving significant changes in customer requirements associated with fundamental adjustments to marketing practices required to maintain customer satisfaction may, in the short term, mask the achievement of improved performance. However, the spread of these costs associated with the adjustments may reveal increased profits in the long term. This assertion is confirmed by Ruekert (1992) who found that an enhanced degree of market orientation ultimately resulted in superior long range financial performance.

Clearly, though the economic transition demands that Ghanaian executives adopt a proactive response to the consumer and market, it is likely that the utilisation of any Western management and marketing techniques will be based on adaptations of these tools to suit the country's culture if they are to be effective. Although market orientation does not directly enhance performance, the indirect impact through the environment indicates that Ghanaian executives may be advised to develop superior capabilities in managing practices associated with a market orientation. Indeed, important activities in transition economies such as effective market research, sound product development efforts and a strong customer and competitor orientation will yield dividends if a long term perspective is adopted. Bearing in mind that the Ghanaian consumer is gaining increased awareness and appreciation of quality and branded goods, it is likely that as the market becomes more competitive and consumers' preferences evolve and assume increasing importance in the marketplace, subsequent studies will reveal a stronger influence of market oriented activities on business performance.

The third managerial implication is based on the finding that the competitive environment in Ghana's transition economy appears to influence the market orientation-performance link. Market orientation seems to exhibit varied effects on different performance indicators among firms operating in Ghana depending on market conditions. Since such situations are transient, formulating a market orientation plan can be rather complicated. Thus, it may be necessary for managers operating in Ghana's changing marketplace to establish a good balance between key performance measures in the context of environmental variables when planning market orientation strategies. Study findings suggest that firms in industries with low levels of market dynamism need to develop a strong market orientation if they are to obtain good returns on their investment. A similar approach has to be adopted in markets characterised by medium to high competitive intensity if a business seeks to attain relatively

high sales growth. In these conditions, Ghanaian executives should employ an incremental cost effective approach to achieve superior performance. The design of effective strategies associated with the marketing mix will serve as a powerful vehicle to enable a firm to identify opportunities in the marketplace and outwit its less market oriented competitors.

Although, it may appear that a market orientation is not essential in all conditions, today's business environment is becoming increasingly characterised by intense competition. In Ghana's transition economy, recent evidence suggests that managers are becoming increasingly aware of the need to develop a strong marketing culture in order to improve marketing effectiveness (Appiah-Adu, 1997). Hence, firms which have a sound market orientation strategy are likely to be better positioned to respond more effectively to changes that take place in their markets by taking advantage of the opportunities which are continually presented in emerging developing nations. This implies that Ghanaian executives should not withhold financial resources from market oriented activities. Rather, management should make decisions based on the analysis of the costs, potential benefits and competitive conditions. The needs of consumers and possible responses of competitors in the environment must be researched in order to develop suitable market oriented strategies.

Finally, considering the costs involved in developing market orientation, managers operating in a transition economy have to be aware of conditions in which a high level of market orientation is not ideal. In effect, an organisation's level of market orientation should be consistent with strategic performance objectives and its business environment. Nevertheless, due to the length of time it takes to develop a sound market orientation culture, it will be advisable to cultivate such a culture in order to provide the firm with a means of competitive advantage in suitable conditions. Given the business pressures associated with obtaining short term results, which often overrides long term performance objectives, this issue is very important. A possible means of addressing short term concerns, proving the efficacy of a sound market orientation for Ghanaian firms and strengthening the case for the provision of resources to engender a market oriented culture, is to monitor the effectiveness of orientation strategy, with the purpose of establishing both short and long term organisational benefits.

Limitations and Research Implications

Considering the dearth of empirical evidence associated with market orientation in developing economies and the constraints of this study, a number of limitations and future research directions need addressing. First, despite efforts in adapting a Western concept to suit a developing nation context, the application of such a paradigm to a transitional emerging market precludes the consideration of other possible causal variables. For instance, at the macro level, Ghana's economy is not yet a completely free-market and even if this status is achieved in the future, the evolution may not be similar to Western countries. At the micro level, market orientation is a concept that industrialised economies advocate to developing economies as the way to do business. Nevertheless, it is important to point out that, there is a likelihood of some firms accepting the market orientation philosophy in principle but not practising its basic tenets effectively, probably due to environmental constraints, thereby, reducing the effectiveness of a market orientation. Second, it is possible that some of the subjective measures, eg. sales growth or ROI, may not be an accurate representation of true performance levels, despite the establishment of a strong correlation between objective and subjective assessments. Subsequent studies could employ objective as well as subjective sources of measuring key constructs. Third, the relatively modest sample size and three year time period may limit confidence in our results, considering the variety of issues investigated. Future research may use larger samples with items measured over a longer time span in order to increase confidence in these links. Fourth, due to the cross-sectional multi-industry nature of this study, industry specific influences and possible consequent lagged effects are not accounted for, an issue which could be addressed in subsequent studies. Finally, future research which examines antecedents of market orientation (eg. organisational systems, managerial characteristics, interdepartmental dynamics), consequences (eg. *esprit de corps*, organisational commitment) and multiple measures of financial outcomes, combined with country specific potential moderators of the market orientation-performance link, would be a welcome addition toward our understanding of the links between market orientation and its various correlates.

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CHAPTER 12

CONCLUSIONS

For more than half a century, leading advocates of marketing have argued that sound marketing is a key to competitive success. Various aspects of the significance of effective adoption and implementation of marketing principles are reflected in the following statements:

“... success in business is based on giving the consumers what they want, when they want it, and at the price they can afford to pay ... many business men have thought themselves market-minded when in fact they only partially grasped the meaning and importance of the term.” (Converse, 1930, pp. 29-30.)

“As should be obvious by now, the marketing concept must permeate the entire company. The activities of the whole business must be directed toward the satisfaction of customer needs at a profit ... the marketing concept is overwhelmingly important to the future success of business.” (McCarthy, 1960, p. 881.)

“... interest in marketing is intensifying as more organisations in the business sector, the nonprofit sector and the international sector recognise how marketing contributes to improved performance in the marketplace.” (Kotler, 1988, p. 31.)

“Today top companies recognise the primacy of being customer-led ... a customer-led company recognises that its only true assets are satisfied customers.” (Doyle, 1994, p. 42.)

This thesis is summed up by the above quotations. Clearly, in the context of marketing practice, the most significant fact is there has been a very consistent proclamation of its importance over the years. For a long period, this remained just a proposition with limited research or empirical evidence to provide support. Although the scenario is changing in the academic arena with an increasing number of empirical studies lending credence to the marketing-competitive success hypothesis, businesses still have a long way to go in terms of grasping the market-minded principles proposed by Paul Converse, through the marketing concept and marketing orientation, to finally the philosophy of being customer-led.

As the market place evolves under the converging pressures of a changing environment, so must organisational marketing efforts adapt to meet the market's changing needs. Today, the world is moving steadily toward a pattern of business activity based on long-term relationships and partnerships. To survive in the future, most businesses will have to be customer-focused, market-driven, global in scope and flexible in order to consistently deliver superior value to customers. Global competition is now a fact of economic life for the industrialised nations as well as for most of the developing economies. As Webster (1994) argues, the global marketplace is as real for the small business enterprise, local retailer or bank as it is for the multinational corporation. All customers have purchasing choices that traverse the globe, not just the locality or nation. Thus, the concept of customer-focus is central to all marketing efforts as well as business strategy throughout the world.

However, being market-driven is not simply being "customer-driven" because having a customer orientation, although still a basic goal, is not sufficient. Market-driven firms are also fully aware of competitors' product offerings and capabilities and how those are viewed by customers. Being market-driven means understanding how customer needs and organisational capabilities intersect in a competitive context because all these variables merge to shape the customer's conception of value. An important element of marketing's role is, therefore to provide decision makers throughout the firm with information in order for them to formulate holistic marketing programmes that respond appropriately to customer information and competitive intelligence. In this particular context as well as from an overall perspective, technology will play a crucial role in enhancing performance. However, it is contended that in the global markets of the 1990s and beyond, superior marketing will be a more sustainable source of competitive advantage than superior technology (Slater and Narver, 1995). To survive firms must develop competences in those areas which offer them some unique competitive advantage. Since it is the customer who decides whether the business has created value, the competitiveness of each firm (and nation) will be closely associated with its commitment to effective marketing practices.

In investigating areas of research in the field of marketing, the search for facts supported by a sound theoretical foundation is much needed. The approach adopted here applies the marketing-performance paradigm of marketing strategy theory and practice, which is based on the competitive endeavours among firms within industries and economies. Our knowledge of issues linking corporate culture to marketing practice and marketing orientation to performance needs expansion. Such efforts must employ both theoretical and empirical approaches. Why should this knowledge base be expanded? ... It is because marketing is

considered as the function that holds together all the different strands of an organisation, with a market orientation providing a unifying focus for the coordinated efforts and projects of individuals and departments within the firm, thereby leading to superior performance. In addition, sound marketing is believed to be crucial to the future prosperity of global and national economies, in terms of socio-economic advancement, performance improvement as well as wealth and income generation in many sectors of industrialised and developing economies. These consequences are debatable and thus, require scholarly research.

Notwithstanding the renewed interest in the marketing-performance hypothesis over the last decade, there is a need to develop theories and empirically examine the combined effects of marketing and other corporate variables on wider organisational outcomes. It is vital to develop new inter-disciplinary theoretical frameworks and paradigms (e.g., Baker *et al*, 1994), as well as adapt existing theoretical models. As organisations are multi-dimensional phenomena, they need to be studied from a variety of perspectives. This thesis has contended that the integration of organisational behaviour (culture), marketing (strategies and activities) and economics (performance and competitive environmental influences on firms) provides a useful approach, based first on theory development (derived from the structure-conduct-performance framework) and second, from a theoretical foundation proceeding to empirical research.

The key objective in this thesis has been to highlight the competitive efforts among firms in different industries, business environments and economies. There is a fundamental, endemic struggle for survival, growth and prosperity (Akchurst, 1996). Striving to expand a business, increase a market share or profitability, is basically contingent upon satisfying customer needs. Developing, adapting, modifying and improving the product/service, in order to gain a competitive edge, is necessary for survival and growth. In fact, this is what marketing is all about.

Market orientation is the business culture which encourages behaviour that creates superior value for the organisation's customers and, subsequently, outstanding performance. The values and beliefs implicit in this culture encourage: firstly, continuous learning about customers' current and latent needs and about competitors' capabilities and strategies; and secondly, cross-functionally coordinated action to exploit the learning (Slater and Narver, 1995). Since effective organisations are configurations of culture and climate which encourage behaviour that creates superior value for the organisation's customers, it is contended that market orientation must be complemented by entrepreneurial values and

operationalised through an appropriate set of business processes for maximum effectiveness (Morgan, Katsikeas and Appiah-Adu, 1998). For market orientation to be a powerful foundation for a learning organisation, its scope must be expanded to include all stakeholders and constituencies that possess, or are developing, knowledge that has the potential to contribute to the creation of superior customer value. Overall, this learning architecture fulfils the requirements for competitive advantage in that it is well positioned to provide superior value to customers, is complex to develop, and is difficult to imitate. This is an area where additional research insight is required.

Commendably, significant progress has been made during the last decade in identifying market oriented organisations, understanding what they do and measuring the financial consequences of this orientation to their respective markets. A further area of challenge is to understand how this market orientation can be developed and maintained. How should these programmes be designed? Should the emphasis be essentially on cultural change, revamped work processes, organisational restructuring, new systems, revised incentives, or some other series of sound initiatives? This is a very important issue since managers would appreciate some insight into the characteristics of successful programmes for building market orientation. Such findings will offer guidance to executives on how to improve and redirect their firms' external orientation towards their markets. Day (1994) combines strategic management theory with total quality management principles in an effort to suggest ways in which change programmes can be effected to enhance a market orientation. He suggests that firms become more market oriented by identifying and developing the unique capabilities that set market driven businesses apart, contending that such firms are superior in their market sensing, customer linking and channel bonding capabilities. Clearly, for these capabilities to be properly cultivated and fully exploited management needs to give simultaneous consideration to the values, beliefs and behaviours of individuals within the firm, augmented by changes in the organisation structure, system, control, incentives and decision processes. A number of interesting future research avenues for marketing scholars arise from this thought provoking work. These include the need to explore the characteristics of change programmes that are productive in improving a market orientation and the factors that stimulate businesses to ardently strive for an enhancement in their orientation to the market. Moreover, can principles from other subject areas such as total quality management, human resources management and business re-engineering (Morgan and Piercy, 1992; Day, 1994) be successfully adapted in managing change programmes designed to improve an organisation's orientation to its market?

Equally, our knowledge base needs expansion in the area of market oriented behaviours in the international marketing environment. In industrialised economies, for instance, though much research has been conducted on the antecedents and consequences of domestic market orientation, studies on international market oriented activities have lagged behind. In fairness though, the pace has quickly accelerated in recent years, with efforts being made to define, operationalise and develop conceptual measures for researching export market orientation. (Cadogan, Diamantopoulos and de Mortanges, 1997). However, more work is clearly required in this field.

In summary, the chapters in this examination of marketing and competitive success in an industrialised nation (UK) and a developing economy (Ghana) can be classified into three general and distinguishing types:

a. Review, development and augmentation of existing knowledge

- i. evolution of marketing in industrialised countries;
- ii. development of marketing in developing economies;
- iii. exploration of the marketing-performance hypothesis;

b. Establishment of a framework for future research and theory building

- i. exploratory measurement of market orientation in a new technology sector in an industrialised nation;
- ii. application of the structure-conduct-performance framework to small businesses in an industrialised country;
- iii. measurement of market orientation among a cross-section of mainly large organisations in a developing economy;
- iv. application of the structure-conduct-performance paradigm to predominantly large firms in a developing economy;

c. Specific empirical inquiries

- i. influence of culture on marketing (large organisations in the contexts of an industrialised nation and a developing economy);
- ii. effects of marketing on performance (large service businesses, small firms, bioindustry companies in an industrialised nation);

- iii. impact of marketing on performance (large firms, foreign and domestic companies in a developing economy);
- iv. competitive environmental influences moderating the marketing-performance link (small firms in an industrialised nation and large firms in a developing economy).

All this reminds one of the late Professor Hugh Clegg, founding professor of industrial relations at Warwick University (1967-79), who was widely acknowledged as the distinguished scholar in his discipline. He fervently espoused the importance of contemporary issues and empiricism. Lord McCarthy (also a renowned industrial relations expert) has recorded that when asked about whether the grouping of industrial relations scholars, reckoned by some to have too much clout in Whitehall, (during the time of the Wilson administration in the 1960s) had any 'principles', Clegg responded:

“only one I can think of: an ounce of fact is worth a pound of theory”

... Afterwards I protested: “there must be another one - think”. He tried: “Something that we write must be of use to someone”.

Obituary of Hugh Clegg, by Lord McCarthy, *Guardian* Newspaper, 12 December 1995, p16.

The above quotation is reflective of this thesis. The original contribution to existing knowledge, it is believed, can be noted in theory development as well as specific and overall empirical investigations. It is hoped that the pertinent issues raised by the chapters in this thesis will spawn future scholarly research, developing suitable applications in the contexts of both industrialised and developing economies, and in the coming years, this will doubtless come to pass.

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APPENDIX A

A Sample of Research Instruments

MARKETING OPERATIONS AND PRACTICES



This is a multi-industry study of marketing practices and business performance. We are collecting information from a number of firms on a range of organisational variables. Your co-operation in completing this questionnaire is central to the success of this research project and should only take about 10-15 minutes of your time. Please use your best judgement in answering these questions and work at speed. On the other hand, please do take care to answer the questions as fully and accurately as you can. The questionnaire has been designed for you to be able to circle your response. This should enable you to complete it in the shortest possible time.

All information provided in this questionnaire will remain absolutely confidential and only be used in aggregate form in combination with all other responses. Your questionnaire will only be seen by the academic researchers involved in this study.

**When complete, please return the questionnaire
in the prepaid envelope provided to:**

Kwaku Appiah-Adu
Senior Lecturer
Southampton Business School
East Park Terrace
Southampton
SO14 0YN

1. Please indicate your level of agreement with the following statements in relation to your firm

	STRONGLY DISAGREE					STRONGLY AGREE	
Management encourages word-of-mouth communication	1	2	3	4	5	6	7
The firm monitors customer satisfaction	1	2	3	4	5	6	7
The firm achieves good sales	1	2	3	4	5	6	7
The firm effectively reaches its target market	1	2	3	4	5	6	7
The firm is a good community neighbour	1	2	3	4	5	6	7
The firm is customer oriented	1	2	3	4	5	6	7
The firm focuses on long-range growth	1	2	3	4	5	6	7
The firm provides good quality service	1	2	3	4	5	6	7
Management clearly defines and communicates the nature of the business	1	2	3	4	5	6	7
Management is committed to marketing excellence	1	2	3	4	5	6	7
The firm places more importance on marketing than on any other functional area	1	2	3	4	5	6	7
The firm places importance on business image	1	2	3	4	5	6	7
The firm regularly and systematically seeks improvement	1	2	3	4	5	6	7
The firm formulates an annual marketing plan	1	2	3	4	5	6	7
The firm is well positioned relative to its competitors	1	2	3	4	5	6	7
Marketing thinking at the top is communicated and implemented down the line	1	2	3	4	5	6	7
Management shows good capacity to react quickly and effectively to on-the-spot developments	1	2	3	4	5	6	7
Management effectively manages marketing resources	1	2	3	4	5	6	7
Marketing management works well with the management in other functional areas	1	2	3	4	5	6	7
The firm recognises the importance of organising itself to serve the needs and wants of chosen markets	1	2	3	4	5	6	7
The firm has different offerings and marketing plans for different segments of the market	1	2	3	4	5	6	7
The firm adapts the whole marketing system in planning its business	1	2	3	4	5	6	7
Efforts are expended to measure the cost-effectiveness of different marketing expenditures	1	2	3	4	5	6	7
Regular marketing research studies of customers, buying influences, etc. are conducted	1	2	3	4	5	6	7
Management understands the sales potential and profitability of different market segments/customers...	1	2	3	4	5	6	7

continued ...

... continued

	STRONGLY DISAGREE					STRONGLY AGREE	
The firm engages in formal market planning	1	2	3	4	5	6	7
Current marketing strategy is of high quality	1	2	3	4	5	6	7
The firm utilises contingency thinking and planning	1	2	3	4	5	6	7
Marketing management works well with functional management in research, manufacturing, purchasing, physical distribution and finance	1	2	3	4	5	6	7
There is high level marketing integration and control of the major marketing functions	1	2	3	4	5	6	7
The new product development process is well-organised	1	2	3	4	5	6	7

2. *To what extent do the following describe your firm? Please indicate your level of agreement*

	STRONGLY DISAGREE					STRONGLY AGREE	
The firm specifically defines what exceptional service is	1	2	3	4	5	6	7
Top management is committed to providing a quality service	1	2	3	4	5	6	7
Employee performance is regularly measured and monitored	1	2	3	4	5	6	7
Employees focus on customer needs, desires and attitudes	1	2	3	4	5	6	7
Employees believe that their behaviour reflects the firm's image	1	2	3	4	5	6	7
Employees meet the firm's expectations	1	2	3	4	5	6	7
The firm places emphasis on employees' communication skills	1	2	3	4	5	6	7
Employees pay attention to detail in their work	1	2	3	4	5	6	7
The firm is considerate of the feelings of employees	1	2	3	4	5	6	7
The firm treats employees as an important part of the organisation	1	2	3	4	5	6	7
Employees feel comfortable in giving opinions to higher management	1	2	3	4	5	6	7
Managers/supervisors have an "open-door" policy	1	2	3	4	5	6	7
Management interacts well with front-line employees	1	2	3	4	5	6	7
The firm places emphasis on hiring the right people	1	2	3	4	5	6	7

continued ...

... continued

	STRONGLY DISAGREE			STRONGLY AGREE			
The firm provides skill-based training and product knowledge to front-line service providers	1	2	3	4	5	6	7
The firm encourages creative approaches to selling	1	2	3	4	5	6	7
The firm gives recognition to high achievers in selling	1	2	3	4	5	6	7
Employees enjoy pursuing new accounts	1	2	3	4	5	6	7
The firm rewards employees with incentives to sell better than competing firms	1	2	3	4	5	6	7
Employees aggressively pursue new business	1	2	3	4	5	6	7
Each employee is well organised	1	2	3	4	5	6	7
Careful planning is characteristic of each employee's daily routine	1	2	3	4	5	6	7
Employees prioritise work	1	2	3	4	5	6	7
Each employee's work area is well organised	1	2	3	4	5	6	7
Each employee manages time well	1	2	3	4	5	6	7
The firm has an approved set of policies and procedures which is made available to every employee	1	2	3	4	5	6	7
Supervisors clearly state what their expectations are of others	1	2	3	4	5	6	7
Each employee understands the mission and general objectives of the firm	1	2	3	4	5	6	7
Management shares financial information with all employees.	1	2	3	4	5	6	7
Front-line service personnel are encouraged to become involved in standard-setting	1	2	3	4	5	6	7
The firm focuses efforts on training and motivating employees	1	2	3	4	5	6	7
All employees are receptive to ideas for change	1	2	3	4	5	6	7
The firm keeps up with technological advances	1	2	3	4	5	6	7
The firm is receptive to change	1	2	3	4	5	6	7

3. What is your impression of the overall level of importance placed on marketing culture by your firm?

VERY LITTLE IMPORTANCE							VERY HIGH LEVEL OF IMPORTANCE	
1	2	3	4	5	6	7		

4. What is your impression of the overall degree of marketing effectiveness of your firm?

VERY LOW							VERY HIGH	
1	2	3	4	5	6	7		

5. *How would you describe the geographical scope of your business? (Please tick as appropriate)*

Local Regional
 National Global

6. *What is the approximate number of employees in your firm?*

7. *What was your approximate sales turnover in the last financial year?*

8. *With regard to the following indicators, how would you score your business performance over the past five years relative to your major direct competitors*

	MUCH WORSE		ABOUT THE SAME			MUCH BETTER	
	-3	-2	-1	0	1	2	3
New product success rate	-3	-2	-1	0	1	2	3
Sales growth	-3	-2	-1	0	1	2	3
Market share	-3	-2	-1	0	1	2	3
Return on investment	-3	-2	-1	0	1	2	3
Customer satisfaction	-3	-2	-1	0	1	2	3
Customer retention	-3	-2	-1	0	1	2	3
Profit margin = (profit before tax / sales) * 100	-3	-2	-1	0	1	2	3
Employee productivity = (sales / no of employees)	-3	-2	-1	0	1	2	3
Overall performance	-3	-2	-1	0	1	2	3

9. *How would you score your overall performance over the past five years relative to your own expectations?*

MUCH WORSE	ABOUT THE SAME			MUCH BETTER		
-3	-2	-1	0	1	2	3

10. What principal types of customers purchase your products/service? (Please tick as appropriate)

- Business
- Consumers
- Other (please specify)

11. What description best typifies your business?

- Manufacturing
- Service
- Other (please specify)

Thank you for your support

Please return this completed questionnaire in the prepaid envelope provided.

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CHAPTER 5

Business Practices in the Biotechnology Industry

A Case Study of the UK



This is a national study of management practices and business performance of firms in the UK biotechnology industry. Your firm is one of a small number, in which executives and managers are being asked to kindly give their opinions on the above matter. Your cooperation in completing this questionnaire is central to the success of this research project and should only take about 10-15 minutes of your time.

Please make each question a separate and independent judgement. Work at a fairly fast speed through the questionnaire and do not worry or puzzle over individual items. It is your first impression, the immediate feelings about the questions that we want. On the other hand, please do take care to answer the questions as fully and accurately as you can. Please remember that there are no 'right' or 'wrong' answers to any of these questions. The questionnaire has been designed for you to be able to circle most of the items to enable you to complete the questionnaire in the shortest possible time.

All information provided in this questionnaire will remain absolutely confidential and only used in aggregate form in combination with other responses. Your questionnaire will only be seen by the academic researchers involved in this study.

**When complete, please return the questionnaire
in the prepaid envelope provided to:**

Kwaku Appiah-Adu
Senior Lecturer in Marketing
Southampton Business School
East Park Terrace
Southampton SO14 0YN

Please provide a response to each question with respect to your firm or served markets.

1. With regard to the competitive forces affecting your company, please indicate your level of agreement with the following statements:

	Strongly Disagree						Strongly Agree
In our market, customers' needs change frequently	1	2	3	4	5	6	7
In our market products/services become obsolete rapidly	1	2	3	4	5	6	7
New customers are always entering our market	1	2	3	4	5	6	7
The strategies/actions of our competitors change constantly	1	2	3	4	5	6	7
The business environment is a threat to our survival	1	2	3	4	5	6	7
Tough competition is a threat to our firm	1	2	3	4	5	6	7
Competitors' product quality/novelty is a threat to our firm	1	2	3	4	5	6	7
Technology in our industry is changing rapidly	1	2	3	4	5	6	7
A large number of new product ideas have been made possible through technological breakthroughs in our industry	1	2	3	4	5	6	7
Technological developments provide big opportunities in our industry	1	2	3	4	5	6	7
Technological developments in our industry are rather minor	1	2	3	4	5	6	7
The annual sales growth rate in our industry has been excellent over the past three years	1	2	3	4	5	6	7
Compared to our major competitors the quality of our products is relatively higher	1	2	3	4	5	6	7
Our sales volume compared to that of our largest competitor is relatively high	1	2	3	4	5	6	7
Our unit operating costs compared to those of our largest competitor are relatively high	1	2	3	4	5	6	7
In our industry we are usually among the first to enter new markets	1	2	3	4	5	6	7
Our industry is dominated by between one and four major firms	1	2	3	4	5	6	7

2. *To what extent does your firm engage in the following practices?*

	Firm does not engage in the practice at all						We engage in this practice to a great extent	
	1	2	3	4	5	6	7	
Our business strategies are driven by our beliefs about how we can create value for our customers	1	2	3	4	5	6	7	
Our strategy for competitive advantage is based on our understanding of customer needs	1	2	3	4	5	6	7	
Our business objectives are driven primarily by customer satisfaction	1	2	3	4	5	6	7	
We constantly monitor our level of commitment and orientation to serving customer needs	1	2	3	4	5	6	7	
We respond rapidly to competitive actions that threaten us	1	2	3	4	5	6	7	
Top management regularly discusses competitors' strengths and strategies	1	2	3	4	5	6	7	
We target customers where we have an opportunity for competitive advantage	1	2	3	4	5	6	7	
Our managers from every function regularly visit our current and prospective customers	1	2	3	4	5	6	7	
We freely communicate information about customer experiences across all business functions	1	2	3	4	5	6	7	
All our business functions (eg. marketing/sales, manufacturing, finance, etc.) are integrated in serving the needs of our target markets	1	2	3	4	5	6	7	
All our managers understand how everyone can contribute to creating customer value	1	2	3	4	5	6	7	
We share resources with other business functions	1	2	3	4	5	6	7	

3. *What is your impression of the overall level of market orientation of your firm?*

Very low								Very high
1	2	3	4	5	6	7		

4. *With regard to your main marketplace, how would you score your business performance over the past 3 years relative to your major direct competitors in terms of:*

	Much worse			About the same			Much better
New product success rate	1	2	3	4	5	6	7
Market share growth	1	2	3	4	5	6	7
Profit margin (Profit before tax/sales)	1	2	3	4	5	6	7
Overall performance	1	2	3	4	5	6	7

5. *What is the approximate number of employees in your company?*

6. *What was your approximate sales turnover in the last financial year?*

7. *Please tick below what principal types of customers purchase your company's products.*

- Consumers
- Organisations or businesses
- Other (please specify)

8. *Please tick below what type of organisation typifies your business?*

- Manufacturing
- Service
- R&D
- Other (please specify)

THANK YOU FOR YOUR PARTICIPATION IN THIS STUDY



Please return this completed questionnaire in the reply paid envelope enclosed.

CHAPTER 11

Business Operations and Practices *A Case Study of Ghana*



This is a national multi-industry study of business operations, practices and performance of firms in Ghana. Your firm is one of a small number, in which executives and managers are being asked to kindly give their opinions on the above matter. Your cooperation in completing this questionnaire is central to the success of this research project and should only take about 10-15 minutes of your time.

Please make each question a separate and independent judgement. Work at a fairly fast speed through the questionnaire and do not worry or puzzle over individual items. It is your first impression, the immediate feelings about the questions that we want. On the other hand, please do take care to answer the questions as fully and accurately as you can. Please remember that there are no 'right' or 'wrong' answers to any of these questions. The questionnaire has been designed for you to be able to circle most of the items to enable you to complete the questionnaire in the shortest possible time.

All information provided in this questionnaire will remain absolutely confidential and only be used in aggregate form in combination with other responses. Your questionnaire will only be seen by the academic researchers involved in this study.

Kwaku Appiah-Adu
Senior Lecturer in Marketing
Southampton Business School
United Kingdom

**When complete, please return the questionnaire
in the prepaid envelope provided to:**

Kwaku Appiah-Adu
P. O. Box 19279
Accra, Ghana

Please provide a response to each question with respect to your firm or served markets.

1. *What has the annual sales growth trend been for your market in the last 3 years?*

Very Poor							Excellent
1	2	3	4	5	6	7	

2. *With regard to the competitive forces affecting your company, please indicate your level of agreement with the following statements:*

	Strongly Disagree						Strongly Agree
In our market, customers' needs change constantly	1	2	3	4	5	6	7
In our market products/services become obsolete rapidly	1	2	3	4	5	6	7
The strategies/actions of our competitors change constantly	1	2	3	4	5	6	7
In our market production/distribution processes change constantly	1	2	3	4	5	6	7
Competition in our industry is cut-throat	1	2	3	4	5	6	7
The business environment is a threat to our survival	1	2	3	4	5	6	7
Price competition is a hallmark of our industry	1	2	3	4	5	6	7
Our competitors are relatively weak	1	2	3	4	5	6	7
Generally, our sales volume compared to our largest competitor is relatively high	1	2	3	4	5	6	7
On the average, our unit costs compared to our largest competitor is relatively high	1	2	3	4	5	6	7
Our customers are usually able to obtain prices that are lower than those that we wish to charge	1	2	3	4	5	6	7
In our industry new entrants are generally able to earn satisfactory profits in the short-term	1	2	3	4	5	6	7
Our industry is dominated by a small number of firms	1	2	3	4	5	6	7

3. *To what extent does your firm engage in the following practices?*

	Firm does not engage in the practice at all						We engage in this practice to a great extent
	1	2	3	4	5	6	7
Our business strategies are driven by our beliefs about how we can create value for our customers	1	2	3	4	5	6	7
Our strategy for competitive advantage is based on our understanding of customer needs	1	2	3	4	5	6	7
Our business objectives are driven primarily by customer satisfaction	1	2	3	4	5	6	7
We constantly monitor our level of commitment and orientation to serving customer needs	1	2	3	4	5	6	7
We conduct regular market research in order to assess the needs of our customers	1	2	3	4	5	6	7
We respond rapidly to competitive actions that threaten us	1	2	3	4	5	6	7
Top management regularly discusses competitors' strengths and strategies	1	2	3	4	5	6	7
We target customers where we have an opportunity for competitive advantage	1	2	3	4	5	6	7
All our business functions (eg. marketing/sales, manufacturing, finance, etc.) are integrated in serving the needs of our target markets	1	2	3	4	5	6	7
All our managers understand how everyone can contribute to creating customer value	1	2	3	4	5	6	7
When required we develop new products as part of our commitment to address customer needs	1	2	3	4	5	6	7

4. *What is your impression of the overall level of market orientation of your firm?*

Very low						Very high
1	2	3	4	5	6	7

5. *With regard to your main marketplace, how would you score your business performance over the past 3 years relative to your own expectations in terms of:*

	Far below expectations		About the Same			Far above expectations	
Sales growth	1	2	3	4	5	6	7
Return on investment	1	2	3	4	5	6	7

6. *What is the approximate number of employees in your company?*

7. *What was your approximate sales turnover in the last financial year?*

8. *Please tick below what principal types of customers purchase your company's products.*

Consumers

Organisations or businesses

Other (please specify)

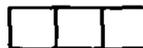
9. *Please tick below what type of organisation typifies your business?*

Manufacturing

Service

Other (please specify)

THANK YOU FOR YOUR PARTICIPATION IN THIS STUDY



Please return this completed questionnaire in the reply paid envelope enclosed.