SWP 19/87 CORPORATE VALUES, CUSTOMER CLOSENESS AND MARKETING EFFECTIVENESS

An Empirical Test of Peters and Waterman

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ABSTRACT

This study tests the relationship between the Peters & Waterman criteria of customer closeness and corporate values, to scales of marketing effectiveness as developed by Kotler. Analysis of data collected from 54 Mid-American companies suggests a positive association, and infers that superior marketing effectiveness will be related to superior financial performance.

INTRODUCTION

In the last two years, Peters & Waterman (1982) have conducted over 500 seminars to top U.S. corporations. The purpose of the seminars has been to disseminate the results of their 1980 study of common characteristics within America's most successful companies. The book itself--"In Search of Excellence"--has remained the number one best-seller since its launch. Notwithstanding the criticism from the academic world as to the study's methodological rigour, this response by the corporate market is exceptional. Further, although essentially descriptive in its analysis, the results of the study have been interpreted by corporations into prescriptive plans for more efficient implementation of the strategic process. To the corporate world, the process of strategic planning (see Galbraith & Nathanson [1978] for a thorough review of current empirical knowledge) has thus been given a clear lead from strategic formulation through to strategic implementation.

The eight major findings of the study can be grouped into three categories:

- Customer driven strategies
  - -- closeness to customers by quality and service obsessiveness. "Nichemanship" by segmentation to satisfy customer value-added perceptions. Constantly monitoring changes in buyer behaviourial characteristics.
- Distinct corporate cultural characteristics
  - -- a bias for action and experimentation. Product "champions." Good news forums, with heavy emphasis upon creativity. Belief in the importance of informality to enhance communication. Belief in being best. Belief in the individual.
- 'Simple' organizational structures and strategies
  - -- concentric diversification ("sticking to the knitting"). Unidimensional managerial responsibilities coordinated by minimal central staff positions. Job rotation from line to staff and back. Substantial autonomy at the profit-centre level.

The first group of these categories--being customer driven--appears to be very similar to that which has been espoused by a number of marketing academics: indeed, since the 1950's, marketing leaders have supported the importance of customer orientation. Additionally, although not the focus of this paper, the third group reinforces empirical results previously reported by Rumelt (1974), Negandhi & Reinman (1976), Dearden (1969), and by Norburn & Miller (1981). It is the second group, however, which provides a new dimension. If the Peters and Waterman results are applicable in a general sense, those companies scoring highly on scales of marketing effectiveness should show corresponding success when measured upon the Peters and Waterman cultural criteria. This potential relationship has been raised recently by Parasuraman and Deshpande (1984) who state that "although we know a great deal about product design, effective pricing strategies, sound promotional tools, intensive distribution channels, and the like, we know relatively little about the people who make and implement decisions in these areas." Further, they consider that "looking at marketing management through 'cultural glasses' raises a number of issues of potential relevance to the effectiveness of marketing performance."

The research question thus arising is whether those companies which score highly upon scales of marketing effectiveness are also those which score highly upon the Peters and Waterman measures of both customer closeness and of corporate culture.

METHOD

To test this theorem, a four-section questionnaire was designed.

- Section 1: Marketing effectiveness

The three point scales in this section were drawn directly from those already developed by Kotler (1977).

- Sections 2 & 3: Customer Closeness and Corporate Values.

Here questions were designed and scales were constructed to test the propositions developed by Peters and Waterman. The questions investigated are shown in Tables 1 and 2 of this paper.

- Section 4: Corporate Information.

This section collected data on financial performance, shareholder composition, organizational structure, customer composition, and managerial backgrounds.

To test the questionnaire, a pilot study was conducted in the summer of 1984. 88 companies were chosen within the geographic triangle of Northern Indiana, Southern Michigan, and Eastern Illinois to represent a broad spectrum of both industry classification, and of corporate size. A member of the top management team of 54 of those companies completed the questionnaire, giving a response rate of 61%.

This paper reports the initial results of the data collected from the first three sections of the questionnaire. Given a successful pilot, the decision to adopt an intensive, multiple-interview, strategy within one industry for the main study will allow data collection within this last segment to be tested against corporate financial performance--e.g., organizational "slack" [Bourgeois & Singh (1983)], and managerial "grooming"--the "upper-echelons" theory of Hambrick and Mason (1984).

RESULTS AND DISCUSSION

The major hypothesis of this paper is that those companies who demonstrate a sueprior degree of marketing effectiveness (the Kotler classification) will also be those who score highly upon those scales of "excellence" as propounded by Peters and Waterman.

To determine the marketing effectiveness of companies within this sample, the Kotler fifteen category grid was utilised to establish a dichotomy between superior and inferior rating. Responses were scaled, the results from which divided the sample into an equal number of companies--a purely random result.

The questions concerning consumer closeness were scored on a 5-point scale and those concerning corporate culture on a 7-point scale. For each question, the mean scores of marketing effective (superior) companies were compared with those of marketing ineffective (inferior) companies, using a two-tailed t-test. The results are shown in Tables 1 and 2. To illustrate, Table 1, question 2 shows marketing effective companies were more likely to "view the business through the eyes of the customer" (score 3.54) than marketing ineffective companies (score 2.42).

Insert Tables 1 and 2 About Here

a) Consumer Closeness:

The results seen in Table 1 indicate an extremely positive relationship. Of the eight criteria, six are associated at better than a two percent level of significance when delineated by marketing effectiveness. Indeed, were this level of stringency to be relaxed, all eight criteria are positive at the 10% point. The relationships appear to suggest three essential characteristics--

- the importance of "nurturing" customer contact
- the importance of constantly listening to customer reaction, both in terms of product satisfaction and suggested innovations
- the importance of quality improvement to maintain customer satisfaction.

TABLE ONE: MARKETING EFFECTIVENESS AND CONSUMER CLOSENESS

Consumer Closeness (Peters & Waterman)	Marketing Effectiveness (Kotler)			
	Superior ($\bar{x}$)	Inferior ($\bar{x}$)	t-score	S.L. ≤ 0.02*
1. My company thinks of itself as providing a service rather than selling a product.	3.88	3.08	1.89	0.065
2. Employees of my company view the business through the eyes of their customers.	3.54	2.42	3.54	0.001*
3. My company feels the key to attracting and holding customers is to keep improving quality.	4.46	3.38	4.53	0.001*
4. Employees of my company would take a quality complaint as a personal insult.	3.75	3.00	2.48	0.017*
5. My company constantly seeks to improve its total offering defined in terms of more value for their customers.	4.17	3.17	3.68	0.001*
6. An important objective of my company is to provide a reliable high value-added service.	4.00	3.42	1.86	0.069
7. My company encourages feedback from customers	4.58	3.46	4.84	0.000*
8. My company's innovation and change come directly from its customers	3.50	2.58	3.11	0.003*

TABLE TWO: MARKETING EFFECTIVENESS AND CORPORATE CULTURE

Corporate Values (Peters & Waterman)	Marketing Effectiveness (Kotler)			
	Superior ($\bar{x}$)	Inferior ($\bar{x}$)	t-test	S.L. $\leq$ 0.02*
1. A belief in "being best"	6.26	4.42	4.57	0.001*
2. An importance in the importance of the details of execution, the "nuts and bolts" of doing the job well.	5.52	4.92	1.48	0.146
3. A belief in the importance of people as individuals.	5.65	4.63	2.13	0.039*
4. A belief in superior quality and service.	6.30	4.75	5.31	0.001*
5. A belief that most members of the organisation should be innovators.	5.04	3.17	4.54	0.001*
6. A belief in the importance of informality to enhance communication.	5.22	3.96	2.70	0.010*
7. Explicit belief in, and recognition of, the importance of economic growth and profits.	5.65	5.54	0.30	0.768

--all of which are associated with Kotler's definition of marketing effectiveness. It is a state of corporate condition which could be described as "empathetic schitzophrenia"--the ability to transcend the parochialism of the supplying host company, and to wear the "hats" of both sides at the same time.

b) Corporate Culture:

Table 2 shows results entirely consistent with the above observation. From the seven values, all five of the significant results are perceptual and qualitative. Effective marketing companies emphasize the importance of the individual by informal involvement, and by the expectation of outstanding performance. Superior quality and service are a given, along with constant emphasis upon the importance of allowing creativity to flourish. Just as every customer is regarded as "prized" in the external orientation of Table 1, so too is the individual internal corporate member. Marketing effective companies not only regard the "customer as king," but would also appear to treat their employees with almost "royal" consideration. Interestingly, and in counterpoint, the belief in the importance of economic growth and profit--a numerical, impersonal measure--failed to achieve a significant result.

CONCLUSIONS

On the evidence from this sample, it would appear that the characteristics associated with the Peters and Waterman "excellent" companies are also those of companies which demonstrate superior marketing effectiveness. The pilot thus fulfills its brief of validating the research design and gives sufficient encouragement to pursue the main study. Further, Peters and Waterman's qualification for "excellence"--to be a superior performer than the industry average over a twenty year period for six financial measures (compound assets growth; equity growth; average capitalization/book value; return on trading capital employed; return on equity; trading margins) would appear to provide a "prima facie" justification for relating Kotler's marketing effectiveness scaling to financial variability. To the researcher, the conducting of both sets of scales within a single industry should allow an opportunity to validate this research direction without the problems inherent in cross-sectional comparison. To the business world the results suggest that strong encouragement to foster a marketing orientation would be a step in the right direction.

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