Marketing and Company Performance: An Examination of Medium Sized Manufacturing Firms in Britain

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ABSTRACT. In recent years several studies have pointed to the importance of marketing to company performance and considerable emphasis has been placed, in Britain, on improving the marketing performance of small and medium-sized enterprises. Based on a mail survey of 231 medium sized manufacturing firms in the U.K., and in-depth interviews with the Chief Marketing Executive of a sub-sample of 20 firms, the study confirms that the most successful companies are those which are marketing orientated. Nevertheless, several traditional tenets of marketing are questioned by the findings and it would seem that the traditional marketing model, as developed for large companies, is neither entirely necessary nor applicable for the smaller firm.

I. Introduction

Between 1950 and 1985, Britain's share of world manufacturing exports fell by some 17%, with its share of home markets falling by an even greater margin of around 25% (Doyle, 1985). Despite more recent improvements this overall, long-run decline in the competitive performance of UK manufacturing countinues to be generally regarded as an issue of national concern. In seeking to explain this process of decline, writers such as Doyle (1985) and Connell (1979) have advocated that the emphasis should be on the examination of factors within individual firms. At this level, research has identified "the lack of commitment to marketing as the single most important constraint on improving UK and overseas market shares" (NEDO, 1981). This conclusion is further reinforced by the more general studies of commercial excellence (e.g., Peters and Waterman, 1982; Goldsmith and Clutterbuck, 1984), as well as studies of managerial perceptions. For example, a general survey of 423 British Chief Executives (Hendrick and Struggles, 1983) identified marketing effectiveness as "of major concern, far outweighing all other factors combined" and in the case of companies with an annual turnover of less than £20M (Thornton, 1988) it was concluded that "Chief Executives put aggressive marketing at the top of their list of factors favouring growth."

Not surprisingly, therefore, considerable emphasis has been placed in Britain, in recent years, on improving marketing performance (e.g., the Department of Trade and Industry Marketing Initiative as part of its overall Enterprise Initiative and the increasing number of empirically-based books and articles on the subject of successful marketing practice). In most cases, however, research has addressed the problems and opportunities facing either large companies or, to a lesser extent, very small companies, essentially ignoring the many "medium-sized" companies in between (Hooley and Brooksbank, 1986). In addition, much of this research is "unbalanced", concentrating solely on successful companies and thereby ignoring the extent to which any findings also characterise less successful firms (Baker *et al.*, 1986).

II. Research objective

The purpose of this research is, therefore, to examine the marketing activities of higher and

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lower performing medium-sized manufacturing companies in order to determine:

— their approach to marketing;
— the role of marketing in determining company performance.

To meet these twinfold objectives, sixteen specific hypotheses, relating to the differences between the strategic marketing practices of higher and lower performing companies, were formulated on the basis of a review of both the normative and the empirical literatures. The primary objective of the research is to test these hypotheses in the context of medium-sized manufacturing firms in Britain.

For the purpose of this exercise, the sixteen hypotheses to be tested can be divided into six subsets relating to the key stages in the marketing process, namely the adoption of a marketing philosophy, the conducting of a strategic analysis, the development of marketing objectives, the formulation of a marketing strategy, the designing of a marketing organisation and the implementation of strategic control (Brooksbank, 1990). Within this framework, the sixteen hypotheses are:

II.1. *Hypotheses relating to business philosophy*

H.1. Higher Performing Medium-Sized Companies (HPMSC) give a higher priority to marketing in their overall business approach than to the other business functions. Research by Peters and Waterman (1982) along with Goldsmith and Chitterbuck (1984), strongly indicate that better performing companies give a higher priority to marketing than to the other business functions, as part of their commitment to a marketing-led philosophy of business.

H.2. HPMSC are more likely to define their marketing activities as customer-driven. Research by Cavanagh and Clifford (1986) and Peterson and Lill (1981) has shown that better performing companies define their marketing activities as essentially customer driven, rather being more sales or production oriented in approach.

II.2. *Hypotheses relating to strategic analysis*

H.3. HPMSC are more formal marketing-planning oriented. The emphasis of many prescriptive works (e.g., Greenley, 1986; McDonald, 1984), together with the empirical findings of Hooley and Jobber (1986) and Saunders and Wong (1985), suggest that successful companies are more formal-marketing planning oriented.

H.4. HPMSC pay more attention to a comprehensive situation analysis. Most prescriptive works (e.g., Walker, 1986) along with the empirical findings of Modiano and Ni-Chionna (1986) and Hooley and Lynch (1985), support the notion that better performing companies pay greater attention to a comprehensive situation analysis. In particular this refers to an internal (company) analysis, competitor analysis, market analysis, customer analysis, and an analysis of the wider business environment.

H.5. HPMSC are more aware and make greater use of strategic planning tools. The advantages of using strategic planning tools are forcefully advocated in much of the marketing literature (e.g., Kotler, 1980; Neidell, 1983; Day, 1977). It is therefore somewhat surprising that relatively few studies have specifically set about researching the extent to which their usage is associated with better company performance. There is, however, at least some empirical evidence (e.g., Hooley, 1984; Hedley, 1977) that successful firms are generally more aware of their existence and make greater use of them in planning their activities.

H.6. HPMSC adopt a more pro-active rather than reactive approach to the future. Research by Hooley and Jobber (1986) and Saunders and Wong (1985) found a more pro-active rather than re-active approach to the future to be an important feature of the planning approach of "successful" companies.

H.7. HPMSC make greater use of marketing research in their planning activities. Research by Schlegelmilch (1985) indicates that better performing companies make a greater use of marketing research in their planning activities. What is not generally specified, however, is the use of commissioned research from an outside agency, compared to self-generated market research material.

II.3. *Hypotheses relating to marketing objectives*

H.8. HPMSC set longer-term profit objectives. Research by Doyle, Saunders and Wong (1985), and Hooley and Lynch (1985), has shown that successful companies set longer-term objectives, with longer time horizons. (i.e., short-run profits are not sought at the expense of longer-run objectives.)

H.9. HPMSC set more offensive, aggressive objectives. Research by McBurnie and Clutterbuck (1987) and Hooley and Lynch (1985), indicates that high performing companies are more likely to set themselves offensive and aggresive objectives rather than adopting a more defensive competitive stance.

II.4. *Hypotheses relating to marketing strategy*

H.10. HPMSC are located in more "attractive" markets. Whereas Hooley and Jobber's (1986) research concluded that a strength of the top performers was their ability to be positioned in growth markets, there is much evidence to the contrary. For example, studies by Cavanagh and Clifford (1986), and Woo and Cooper (1982), suggest that smaller firms are better suited to the more mature, lower-growth markets due to their greater stability and potential for defining and protecting market positions more easily.

H.11. HPMSC have a strategic focus based on raising volume, rather than productivity improvement. Research by Doyle, Saunders and Wong (1985) along with Peters and Waterman (1982) has shown that in line with the more aggressive strategic objectives found to characterise the higher performers, they are also more likely to be differentiated by the adoption of a strategic focus based on raising volume rather than productivity improvements.

H.12. HPMSC compete on the basis of value to the customer, rather than price. Research by Hooley and Jobber (1986), along with Cavanagh and Clifford (1986) and Peters and Waterman (1982), has shown that the better performing companies invariably compete more on the basis of providing value to the customer, than just price alone.

H.13. HPMSC innovate more frequently. Research by Clifford (1977), Hooley and Lynch (1985) and Cavanagh and Clifford (1986) has identified successful companies to be more innovative than their lesser-successful counterparts. These findings generally refer to both actual product innovation as well as the importance of innovation in ways of doing business.

II.5. *Hypotheses relating to marketing organisation*

H.14. HPMSC have a simpler marketing organisational structure. The prescriptive work of Peters (1987), along with the research by Doyle, Saunders and Wong (1985) and Peters and Waterman (1982), suggests that simplicity of structure is a key feature associated with successful companies.

H.15. HPMSC have more flexible marketing organisations. Research by Goldsmith and Clutterbuck (1984), along with Baker *et al.* (1987) and Hooley and Lynch (1985), has shown that higher performing companies are characterised by greater organisational flexibility. Specifically, this refers to the use of temporary forms of organisation; the extent of job overlap both within marketing and between marketing and other functions; and the degree of formality/informality in information/communication links both within and between marketing and other functions.

II.6. *Hypotheses relating to marketing control*

H.16. HPMSC make greater use of marketing information systems. Writers such as Montgomery and Weinberg (1979), and Peters (1988), along with research by Peters and Waterman (1982), and Hooley and Jobber (1986), point to the importance of four main types of marketing information system: a marketing research system; an on-going intelligence gathering system; and a computer-aided marketing decision-making system.

III. Research methodology

There is no standard definition of what constitutes a small or medium enterprise (Brooksbank, 1991) but for the purpose of this exercise medium sized companies were defined as those conforming to the following criteria:

No. Employees	—	Between 100 and 500
Annual Turnover	—	Between £1M and £20M
Product Strategy	—	Companies whose activities are dominated by one major area of related products (technology/

markets) which accounts for 70% or more of total company sales.

In selecting these criteria, it was intended that an homogeneous sample of medium sized companies would result — in terms of both their scale of operations (number of employees and sales turnover) as well as other, more qualitative factors. "Product Strategy" was used as an indicator of a range of factors such as the degree to which management systems have been developed; management style and structure; financial and other resource capabilities; ownership; the sophistication of strategic planning activities; etc. which are believed to differentiate companies of different sizes. Essentially, the rationale for selecting "product strategy" (and the precise definition employed) was to overcome the problems of implementation associated with qualitative criteria by borrowing, with adaption, the concept of "stages" of company growth and development from the field of organisational behaviour. In this context, the characteristics relate to the variously defined "stages" of a company's growth as it evolves from a small business, with a single product orientation, to a progressively larger, more diversified multi-product, conglomerate-type organisation.

A sampling frame of 1460 companies was generated by drawing from a commercial data base (ICC Ltd — comprising some 85,000 UK registered companies as of April 1987) all those companies which conformed to the following selection criteria: (i) Annual Sales Turnover (as of last financial year accounts entered onto the system) between £2.5m and £20m inclusive. (ii) Number of employees between 100 and 500 inclusive. (iii) Repeat industrial SIC codes which, within the data base, had been assigned to each company as an indicator of their "primary" market activities. Of the 1460 questionnaires despatched in the autumn of 1987, 97 were returned by the post office as undeliverable (moved to another address or ceased to trade), and 231 fully completed questionnaires were received from qualified medium sized companies, which represents a 16.9% response rate. In view of the level of response, it was considered necessary to make some estimation of the sample in terms of its representativeness of the larger population. For this purpose a random sample of non-responding companies from the original sampling frame was contacted by telephone, the target recipient being the most senior sales/marketing person available. Telephoned responses to selected questions from the questionnaire were subsequently obtained from a total of 42 qualified medium sized companies, and when the profiles of these responses were compared with those from the original study sample using the chi-square test, no statistically significant differences were found. An examination of the study sample, however, revealed that a number of key features typified its internal composition: (i) The majority of firms had less than 300 employees (81%) and an annual turnover of less than £10m (70%). (ii) Most were UK-owned (80%) and were split 60%—40% in favour of firms forming an autonomous entity within a larger group of companies, rather than being fully independent. (iii) The sample was evenly spread in terms of the relative competitive position of respondent companies, i.e., overall market leaders (approximately largest share of market); overall market challengers (approximately second largest share of market); overall market followers (smaller, but still significant share of market); market nichers (do not operate across overall market, but exclusively in selected segment(s)).

To test the hypotheses it was necessary to classify the firms according to their performance. To do this, the respondents were asked to report how their company had performed, (in their last financial year) relative to its major competitors, in terms of profit, sales volume, market share and return on investment. From the answers given, it was possible to differentiate between "high", "average" and "low" performance groups, using the following definitions:

- High Performance firms performed "better" than their competitors on all four indicators.
- Average Performance firms performed variously on the four indicators.
- Low Performance firms either performed worse than their competitors on all four indicators or did not know how they had performed.

On this basis, 30 of the 241 respondent firms were classified as "High Performers", 161 as "average" and 40 as "low". Using this classification of company performance, the sixteen hypotheses were tested by the application of chi-square.

In order to provide more in-depth information on the marketing processes involved, detailed follow-up interviews were conducted with the Chief Marketing Executives of 10 "high" and 10 "low" performance companies, randomly selected from the two categories. These interviews, which were conducted between March and June 1988, were semi-structured, using a mixture of open-ended questions and prompt sheets. The results provide a more qualitative insight into the quantitative findings derived from the postal survey.

IV. Research findings

IV.1. *Business Philosophy (hypotheses 1 and 2)*

As Table I reveals, the results of the survey indicate that there is no statistical relationship between Company performance and the role of marketing within corporate planning. Notably, however, the majority of firms (50.4% of the sample) reported marketing to have a "joint leading role", and at least to some extent the data was directionally in support of the hypothesis that the higher performing medium-sized companies give marketing a higher priority than the other business functions in their overall approach to business. Rather interestingly, however, in the follow-up interviews with the 20 Chief Marketing Executives, virtually all of the respondents stressed that planning in their Company was an integrated effort, involving all the business functions. When pressed however, those from the higher performing companies were more inclined to highlight marketing as acting as the "driving force" behind the firm's planning efforts, compared to the others who reported that, if anything, selling, production or R & D featured most highly.

TABLE I
Performance by role of marketing in corporate planning

	% High (N = 29)	% Average (N = 159)	% Low (N = 40)
Marketing has the leading role	24.1	22.0	12.5
Marketing has a joint leading role	51.7	50.3	50.0
Marketing has a subordinate role	24.1	27.6	37.5
Chi-Square = 2.94 Cells with EF < 5 = 0	DF = 4	P = 0.56	

From Table II, however, it would seem that at the 5 per cent level, a statistically significant relationship exists in medium sized companies, between higher performance and an approach to marketing based on the prior analysis of market needs. The follow-up interviews with the Chief Marketing Executives provide some interesting insights into this. When asked "what is the key task of marketing in your company", those executives employed by the lower performing firms emphasised the need to make sales, while those engaged by the high performing companies tended to answer in broader terms, usually emphasising a longer-term perspective, with marketing having a more cross-functional responsibility for the firm's future. Selected responses are shown in Table III.

IV.2. *Strategic Analysis (hypotheses 3—7)*

According to the findings presented in Table IV no statistically significant relationship exists between company performance and the extent of formal marketing planning. Although the data is directionally supportive of the hypothesis, in absolute terms the higher performers are by no means convincingly formal-marketing planning oriented,

TABLE II
Performance and company approach to marketing

	% High (N = 27)	% Average (N = 159)	% Low (N = 40)
Place major emphasis on prior analysis of market needs	74.0	71.7	50.0
Make what we can and sell to whoever will buy/ place major emphasis on advertising and selling	26.0	28.3	50.0
Chi-Square = 7.42 Cells with EF < 5 = 0 Significant at the 5% level.	DF = 2	P = 0.02	

TABLE III
The key task of marketing (personal interviews)

High performers	Low performers
"The key task right now is to make sure we don't miss the boat for 1992"	"Our job is to sell products and build relationships with our customers"
"Planning all our efforts so that we keep going in the right direction"	"To sell more than we did last year!"
"Marketing is finding and developing new products and markets — and preserving profitability in our traditional ones in the meantime"	"Marketing has the responsibility for selling our products in sufficient volume to make a profit"
"Marketing has to make sure we always keep one step ahead of our competitors"	"To keep our sales levels up through the continual use of sales promotions maintaining product awareness and making sure we can outsell the competition"

TABLE IV
Performance by extent of formal marketing planning

	% High (N = 28)	% Average (N = 159)	% Low (N = 40)
Annual and longer term	50.0	42.1	37.5
Annual marketing plan	25.0	22.0	25.0
Annual budgeting	21.4	23.9	30.0
Little or none	3.5	11.9	7.5
Chi-Square = 3.39 Cells with EF < 5 = 16.7%	DF = 6	P = 0.75	

with 25% reporting that they restrict their marketing planning to annual budgeting or do little or no formal planning.

In many ways, however, the personal interviews provided contradictory evidence. While all executives from the higher performing firms said they use budgeting and at least drew up annual marketing plans as well, half of those representing the lower performing firms said planning was limited only to annual budgeting. The interviews indicated, however, that at least in part, this apparent discrepancy may be due to the use and interpretation of the word "formal". The process of longer-term strategic marketing planning was rarely described as "formal" by most interviewees. Typically, longer-term plans of a "strategic" nature were described as being different from "formal" planning because they were not "numbers-oriented", and with respect to this type of planning, the higher performing companies were clearly more active. In practice, longer-term planning usually consisted of a series of informal and often spontaneous meetings between senior managers from all functions, when critical issues and questions of a strategic nature would be addressed simply in terms of words and ideas, gradually crystallising and evolving over time. Although this question had been successfully employed in previous postal surveys (Hooley and Lynch, 1983), it would seem that on this occasion it has been the subject of misinterpretation and perhaps this is less likely to arise with larger companies, where the concept of formal planning is better understood.

To test the hypothesis (4) that high performing medium-sized firms pay more attention to a comprehensive situation analysis than do the lower performing firms, the respondents were asked to indicate the importance their company attached to carrying out five types of situation analysis: (i) internal (company), (ii) competitor, (iii) market, (iv) customer, (v) wider business environment. When the responses across the five types of situation analysis are summarised (Table V), it would seem that a significant relationship exists at the 10 per cent level with the higher performing firms being more likely to attach a greater degree of importance to a comprehensive situation analysis.

The personal interview findings were also highly supportive of the hypothesis. In general, the Executives from the lower performing firms were found to view the various situation analyses as being of less utility than were their counterparts in the higher performing companies and were more oriented towards collecting information for tactical, rather than strategic purposes. For example, invariably an "internal analysis" would simply mean keeping track of sales and cost information for control purposes. Information on competitors was typically limited to salesforce feedback and

TABLE V
Performance by importance attached to a comprehensive situation analysis

	% High (N = 28)	% Average (N = 158)	% Low (N = 38)
High importance	50.0	32.9	15.7
Average importance	28.5	37.3	44.7
Low importance	21.4	29.7	39.5
Chi-Square = 8.89	DF = 4	P = 0.06	
Cells with EF < 5 = 0			
Significant at the 10% level			

personal contacts in the industry, with customer and market information based on reading trade journals and occasionally buying-in commercially available market reports.

In contrast, the approach of the higher performing firms is typified by the following quote from one Marketing Director "The analytical side is growing fast — we are now making plans more on the basis of hard, structured information rather than gut-feel". In particular, the higher performing firms seemed far more competitor-focussed. What sets them apart is that not only do they watch their competitors more but that they do so in depth and with dedication. Indeed, the importance of outperforming, or at least matching, their competitor's offer was specifically highlighted by many of the interviewees.

To determine whether the higher performing medium sized firms are more aware, and make greater use, of strategic planning tools than their lower performing counterparts (hypothesis 5) the respondents were asked about their awareness, and useage, of six marketing planning tools: SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis, the experience curve, PLC analysis (Product Life Cycle), Portfolio Planning Matrices, the PIMS Study, and the Marketing Audit. When all responses across the six planning tools are summarised (Table VI) there is seen to be a relationship statistically significant at the 1 per cent level with the higher performing firms likely to use the various planning tools.

However, the executive interviews revealed that the planning tools most commonly used and understood were SWOT analysis, PLC analysis, and the marketing audit. The others were rarely used or understood, and had not been heard of in many cases. Perhaps significantly, most executives emphasised that by far the most frequently used "analytical tool" was simple discussion, with the higher performers being more inclined to refer to the inclusion of managers from all of the functional areas of the firm.

TABLE VI
Performance by usage levels of six marketing planning tools

	% High (N = 30)	% Average (N = 161)	% Low (N = 40)
High level of use & awareness	46.6	33.5	12.5
Average level of use & awareness	30.0	34.1	30.0
Low level of use & awareness	23.4	32.3	57.5
Chi-Square = 14.39	DF = 4	P = 0.01	
Cells with EF < 5 = 0			
Significant at the 1% level			

As shown in Table VII, the mail survey revealed no statistical relationship between the three performance groups and their planning approach to the future (hypothesis 6). Interestingly, the most common approach would appear to be to forecast how the future is likely to happen and then plan accordingly (63.3% of the sample responded in this category).

The Executive interviews strongly supported this finding, with the majority explaining that plans were based on their forecasts of the future. Within this broad approach, however, there was a dis-

TABLE VII
Performance by approach to planning for the future

	% High (N = 29)	% Average (N = 158)	% Low (N = 39)
Monitor and then adapt	17.2	22.7	23.0
Forecast and plan accordingly	62.0	62.6	66.6
Plan to make it happen	20.6	14.5	10.2
Chi-Square = 1.68	DF = 4	P = 0.79	
Cells with EF < 5 = 11.1%			

cernable difference in the amount of time, effort and creativity with which the higher and lower performance groups set about their task. First, the higher performers more often reported the use of computers, alongside a more detailed and systemized "judgemental" approach. Second, while both groups attempted to consider as wide a range of variables as possible over and above simple sales forecasts (such as trends in customer buying behaviour, competitors' activities, etc.), the higher performing firms relied less on "gut feel" and informal salesforce feedback. Instead, they had at their disposal an on-going intelligence-gathering "machine" which provided a rich data source. Also, as in most areas of their planning approach, the higher performing firms would involve more of their staff in forecasting the future. For example, the salesforce would be consulted customer by customer, prospect by prospect and market by market. In addition, other functional staff would participate when necessary. For example, one interviewee explained how his company's technical and financial managers were responsible for ensuring that predictions were consistent with the prevailing general technological and economic trends, respectively.

In order to test whether the higher performing firms make greater use of marketing research in their planning activities (hypothesis 7), respondents were asked about two types of market research used for planning purposes: (i) self generated and (ii) commissioned-in research. Table VIII reveals a statistical relationship (at the 1% level) between the frequency of use of self-generated market research and company performance, with a considerable proportion of the higher performers claiming that it is often used (64.3%). The reverse was found to be true, however, for commissioned-in research. As shown in Table IX, no statistical relationship emerged, with the pattern of response directionally contradictory to the hypothesis and with only 7% of all firms reporting the regular use of this type of research.

The executive interviews, however, revealed a sharp contrast between the two types of organisation with respect to research, and the range and innovativeness with which it is carried out. Whereas for the lower performing firms it tends to be used typically for the purpose of sourcing new prospects, following-up customer complaints or analysing the reasons for lost business, for the higher performers it fulfils a wider range of functions and involves a far wider variety of market research activities, including questionnaire surveys, telemarketing research, qualitative fieldwork, joint co-operations with customers or suppliers, and the sponsoring of research projects with universities and colleges.

IV.3. *Marketing Objectives (hypotheses 8 and 9)*

Generally, it would seem, higher performing medium-sized companies do set longer-term profit objectives (hypothesis 8). As Table X reveals, there is a significant relationship at the 10 per cent level between company performance and a longer-term time horizon when setting objectives. This finding is consistent with the more "strategic" orientation of the higher performing firms reported earlier. As shown in Table XI, no statistical relationship appears to exist between company performance and the extent to which marketing objectives are defensive or offensive in nature (hypothesis 9). Although, to some extent, the data

TABLE VIII
Performance by use of research carried out by company

	% High (N = 28)	% Average (N = 158)	% Low (N = 38)
Use often	64.3	60.7	34.2
Use sometimes/seldom/never	35.7	39.3	65.7
Chi-Square = 9.55	DF = 2	P = 0.001	
Cells with EF < 5 = 0			
Significant at the 1% level			

TABLE IX
Performance by use of commissioned-in market research

	% High	% Average	% Low
Use often	3.8	7.2	8.3
Use sometimes/seldom/never	96.2	92.7	91.6
Chi-Square = 0.56	DF = 2	P = 0.75	
Cells with EF < 5 = 33.3%			

TABLE X
Performance and profit objectives

	% High (N = 29)	% Average (N = 154)	% Low (N = 37)
Long term	31.0	12.4	8.1
Medium term	48.2	55.2	51.4
Shorter term	20.7	32.4	40.5
Chi-Square = 9.43	DF = 4	P = 0.06	
Cells with EF < 5 = 11.1%			
Significant at the 10% level			

TABLE XI
Performance by nature of marketing objectives

	% High (N = 29)	% Average (N = 159)	% Low (N = 38)
Defend/maintain	10.3	19.4	18.4
Steady growth	51.7	52.8	63.1
Aggressive growth/ market domination	37.9	27.6	18.4
Chi-Square = 4.07	DF = 4	P = 0.39	
Cells with EF < 5 = 0			

is directionally supportive of the hypothesis, the majority of firms (55.8%) reported their current marketing objectives to be "steady growth".

By way of explanation, it seems reasonable to assume that in general, medium-sized companies may be less prone to adopting an offensive stance due to their relatively smaller resource-base (capacity for "influencing" their markets), compared to larger companies. This would result in a reduced confidence in the future — something that would be reflected in objective setting. Such an observation is indeed consistent with an earlier observation that in general, medium sized companies adopt a more reactive, rather than proactive approach to the future in their planning activities.

IV.4. *Marketing Strategy (hypotheses 10 to 13)*

There is no concensus in the literature on the types of market potentially most attractive to the medium-sized firm. For some, it is believed that high growth markets offer more opportunities for the smaller, more agile companies to compete via innovation and catering for specialised market needs. The alternative view, however (Woo and Cooper, 1984), is that lower growth markets, with greater standardisation and lower levels of product and process change, are more suitable due to their greater stability, allowing firms to define and protect market positions more easily.

In order to help clarify this (hypothesis 10), the survey respondents were asked to indicate the nature of their main market in terms of eight descriptors, namely: (i) plc stage, (ii) diversity of customer needs and wants, (iii) changes in customer requirements, (iv) degree of technical change, (v) degree of competitive rivalry, (vi) changes in competition, (vii) extent of barriers to entry, (viii) extent of barriers to exit. However, when chi-square tests were applied across all variables relative to company performance, no statistical relationships emerged. It must be concluded, therefore, that in this case competitive success is more related to the quality of marketing strategies and their implementation, irrespective of the characteristics of the markets in which the companies are located.

From Table XII, it would seem that the hypothesis (11) that high performing firms have a strategic focus based on raising volume rather than improving productivity is confirmed. A significant relationship exists at the 10 per cent level and 93.3

TABLE XII
Performance and strategic focus

	% High (N = 30)	% Average (N = 160)	% Low (N = 40)
Expanding total market/ entering newly emerging market segments/winning share from competitors	93.3	81.2	72.5
Focusing on cost reduction & productivity improvement	6.6	18.7	27.5
Chi-Square = 4.89	DF = 2	P = 0.08	
Cells with EF < 5 = 0			
Significant at the 10% level			

per cent of the high performing medium-sized companies included in the sample adopted such an approach.

The executives interviewed, however, showed that productivity improvements do play a more important role than the survey findings might imply. Virtually all of those interviewed indicated that while the primary emphasis was on raising volume, a simultaneous and on-going focus on productivity improvements was also pursued. Notably, when describing their company's choice of strategic focus those from the higher performing companies seemed much more knowledgeable, committed and informed about alternative routes to profitability, besides the "traditional marketing approach" of volume increases.

To test the hypothesis (12) that higher performing firms compete on the basis of value to the customer rather than price, the respondents were asked to indicate how their company's offerings compared with their major competitors (either "we are superior", "about the same", or "we are inferior") on product (performance, quality, design), service (after sales, finance and credit), promotion (personal selling, advertising, reputation) and place (distribution, dealer/distributor support). Additionally respondents were asked to indicate whether their price levels were "higher", "about the same" or "lower". Tables XIII, XIV and XV, show the results support the hypothesis, revealing a statistically significant relationship between higher performance and superiority in three areas of the marketing mix — product quality (at the 1% level), company/brand reputation (at the 1% level), and distribution (at the 5% level). No differences emerged with regard to any other variables, including price.

TABLE XIII
Performance and product quality

	% High (N = 30)	% Average (N = 161)	% Low (N = 40)
Superior	86.6	35.4	37.5
Same/inferior	13.3	64.6	62.5
Chi-Square = 27.68	DF = 2	P = 0.0001	
Cells with EF < 5 = 0			
Significant at the 1% level			

TABLE XIV
Performance and company/brand reputation

	% High (N = 30)	% Average (N = 161)	% Low (N = 40)
Superior	73.3	46.0	35.0
Same/inferior	26.7	54.0	65.0
Chi-Square = 10.68	DF = 2	P = 0.001	
Cells with EF < 5 = 0			
Significant at the 1% level			

TABLE XV
Performance and distribution

	% High (N = 30)	% Average (N = 161)	% Low (N = 40)
Superior	50.0	29.8	22.5
Same/inferior	50.0	70.2	77.5
Chi-Square = 6.49	DF = 2	P = 0.03	
Cells with EF < 5 = 0			
Significant at the 5% level			

The Executive interviews provided further support for the hypothesis. When the executives were asked to describe their company's marketing mix and intended "positioning" strategy, the higher performing firms had a more coherent view of their own company's mix as well as those of their competitors. In particular, they were able to define more precisely their company's competitive advantage, which in all cases were based on *value to the customer, rather than price.* In addition, they more often gave an expanded answer as to how they attempt to cut a differentiated position based on perceived distinctive company competences or strengths. Certainly, an impression was formed that the higher performers had a better appreciation and understanding of their company's strengths and how they were being (should be) exploited in their market place.

When the executives were asked "what do you mean by product quality?", invariably it was defined more in terms of value to the customer and not just technical excellence alone (although this was generally seen as important). Additionally, the term "customer-service" took on a far wider meaning among the higher performing firms, and rarely was it solely restricted to the "after-sales" variety. Indeed, most of the interviewees from the higher performing companies were quite explicit about their reasons for this "total" approach to service (which was often referred to as including both "before-sales" as well as "after-sales" services); it was a means of competitive differentiation.

The hypothesis (13) that the higher performing medium-sized firms innovate more frequently than the lower performing companies was tested by asking the survey respondents about two types of innovation, namely (i) their approach to developing and marketing new products and (ii) their approach to developing and introducing new ways of doing business. The results are shown in Table XVI which reveals a statistical relationship (significant at the 1% level) between company performance and the extent of innovation in introducing new ways of doing business. With regard to product innovation, however, Table XVII shows no statistical relationship, although a fairly large proportion of all companies (66.2%) describe themselves as actively involved in developing and marketing new products.

Interestingly, however, the Executive interviews suggest that there is a discernable difference in the *type* of new products being developed. When asked to discuss their Company's most recent product innovation (regardless of how successful/unsuccessful it had been) those from the higher performing companies were more likely to describe a product improvement, compared with those from the lower performers who more typically described a totally new product creation. A second associated area of difference was the way in which the executives described their innovation. Whereas the higher performer innovations were made to seem extremely simple, with an obvious advantage or benefit to the customer and at a low cost and/or low risk to themselves and/or to the customer, this was rarely the case for the lower performer innovations.

TABLE XVI
Performance and business practice

	% High (N = 28)	% Average (N = 155)	% Low (N = 31)
We lead the market in introducing new ways of doing business	60.7	33.5	23.0
We stick to the methods we have always used/watch the competition and if their new ideas work well then we imitate	39.2	66.4	77.0
Chi-Square = 10.69	DF = 2	P = 0.001	
Cells with EF < .5 = 0			
Significant at the 1% level			

TABLE XVII
Performance by approach to developing & marketing new products

	% High (N = 28)	% Average (N = 156)	% Low (N = 38)
Actively develop & market new products ahead of the competition	75.0	66.6	57.8
Don't do any/imitate the competition	25.0	33.4	42.1
Chi-Square = 2.14	DF = 2	P = 0.34	
Cells with EF < 5 = 0			

IV.5. *Marketing Organisation (hypotheses 14 and 15)*

As Table XVIII reveals, no statistically significant relationship exists between company performance

TABLE XVIII
Performance by marketing organisation structure

	% High (N = 29)	% Average (N = 158)	% Low (N = 39)
All products under one manager	65.5	54.4	69.3
Other	34.5	45.6	30.7
Chi-Square = 3.13	DF = 2	P = 0.20	
Cells with EF < 5 = 0			

and the simplicity of the marketing organisational structure. Thus the hypothesis (14) is not supported. However, it is noticeable that 63 per cent of all of the companies surveyed had all of their products under the control of one manager, indicating that perhaps these companies were neither large enough, nor with enough products, to warrant complicated structures.

When the Executive interviewees were asked to explain, in some detail, the structure of their marketing organisation (in terms of job titles, hierarchies, numbers of staff, etc.), there were surprisingly few differences between the two performance groups in terms of job specifications. Typically, job titles suggested most positions were in the functional areas of sales, telesales, administration, customer services, marketing support and distribution (presented in roughly declining order of frequency of occurrence). One major difference to emerge, however, related to the number of managerial "layers". Whereas the majority of those representing the lower performing firms described a pyramid-style, hierarchical structure, typically involving middle managers playing a pivotal role between the Senior Marketing Executive and other marketing staff, those from the higher performing firms described a different structure. Theirs was a flatter structure, with typically all staff reporting directly to the Senior Marketing Executive (usually the Sales and Marketing Director), and with no middle management. The interviews suggested that a flatter structure was a very deliberate policy among the higher performing firms. It helped to:

- improve communication;
- stimulate personal initiative;
- reduce political in-fighting;
- increase efficiency;
- reduce bureaucracy;
- promote management involvement.

In addition, all of the executives who advocated this structure stressed that all staff were viewed as holding responsible positions, of the utmost importance to their Company's marketing effort. Consequently, job titles invariably included the word "manager". This is not to say, however, that all employees necessarily had equal status. Within the flatter organisational structure, superior achievement or experience is accorded a higher status and recognition through extra pay, privileges, job responsibility or influence.

The hypothesis (15) that the higher performing companies have more flexible marketing organisations was tested by asking respondents about three aspects of organisational flexibility: (a) the use of temporary forms of organisation, (b) the extent to which job responsibilities tend to overlap between marketing and other functional responsibilities, (c) the degree of formality/informality in information/communications links between marketing and other business functions. As shown in Table XIX, the survey reveals a statistical relationship (at the 10% level) between better performance and a higher degree of job overlap between marketing and the other business functions.

Although none were found with regard to the other two criteria, Table XX shows that the largest proportions of all firms claimed that temporary forms of organisation were at least used "sometimes" (63/7%) and Table XXI shows that only a small proportion of all firms (4%) reported

TABLE XIX
Performance and overlap between marketing and other business functions

	% High (N = 28)	% Average (N = 157)	% Low (N = 38)
Much overlap	46.4	26.7	26.3
Some/none	53.5	73.2	73.6
Chi-Square = 4.63	DF = 2	P = 0.09	
Cells with EF < 5 = 0			
Significant at the 10% level			

TABLE XX
Performance by usage of temporary forms of organisation

	% High (N = 29)	% Average (N = 160)	% Low (N = 40)
Use often/sometimes	65.5	65.6	55.0
Use seldom/never	34.4	34.4	45.0
Chi-Square = 1.60	DF = 2	P = 0.44	
Cells with EF < 5 = 0			

TABLE XXI
Performance by formality of information/communication links within marketing

	% High (N = 29)	% Average (N = 156)	% Low (N = 40)
Mostly formal	0.0	5.1	2.5
Mostly informal	65.5	60.9	65.0
Combination of both	34.4	33.9	32.5
Chi-Square = 2.0	DF = 4	P = 0.72	
Cells with EF < 5 = 22.5%			

information/communication links to be "mostly formal".

When the Executives were questioned about the nature of their company's information/communication links, most confirmed that they were generally "informal" in nature, but when pressed, the executives from the higher performing companies were more inclined to describe the importance of an "open" environment, with two-way communication between all levels in the management hierarchy. Such an environment was felt to enable opinions to be vented freely and honestly, to encourage constructive criticism and ideas, and generally to provide the necessary conditions for a participatory and team-like approach to decision-making. Indeed, a clear impression was formed that most companies were characterised by one of two types of communications flow: "open" or "fragmented" (i.e., with communication between levels in the management hierarchy). Each type, to a large extent, can be described and explained in terms of the prevailing organisational structure and was typically found to be associated with higher or lower performing companies, respectively.

IV.6. *Marketing Control (hypothesis 16)*

To determine whether the higher performing companies make greater use of Marketing Information Systems, respondents were asked about their use of three types of information systems (a) market research for control purposes; (b) on-going marketing intelligence-gathering systems; and (c) computer-based software as an aid to marketing decision-making. With regard to the usage of market research for control purposes, respondents were asked to report the extent to which their company carried out four types of research: (i) formal customer satisfaction surveys, (ii) investigations into customer complaints/warranty claims, (iii) follow-up analyses into reasons for lost order/business, (iv) research into market share movements.

As shown in Tables XXII and XXIII, the survey revealed a statistically significant relationship between company performance and the usage of formal customer satisfaction surveys (at the 10% level) and research into market share movements (at the 5% level). No such relationships emerged with regard to research into customer complaints and lost business, although notably, the majority of all companies (97.3% and 91.1%, respectively) reported that such research is undertaken at least "sometimes".

With regard to the usage of an on-going

TABLE XXII
Performance and frequency of formal customer satisfaction surveys

	% High (N = 30)	% Average (N = 156)	% Low (N = 39)
Frequently/sometimes	60.0	50.6	33.3
Never	40.0	49.4	66.6
Chi-Square = 5.45	DF = 2	P = 0.06	
Cells with EF < 5 = 0			
Significant at the 10% level			

TABLE XXIII
Performance and frequency of company research into market share movements

	% High (N = 30)	% Average (N = 156)	% Low (N = 39)
Frequently/sometimes	60.0	73.7	56.4
Never	20.0	26.3	43.6
Chi-Square = 5.80	DF = 2	P = 0.05	
Cells with EF < 5 = 0			
Significant at the 5% level			

marketing intelligence-gathering system, respondents were asked to report the extent to which their company monitored developments in four areas: competitor behaviour, customer behaviour, technological change and business/economic trends. When responses across the four areas are summarised, Table XXIV shows a statistical relationship (at the 1% level) between higher company performance and the use of marketing intelligence systems. Similarly with regard to the use of computers, Table XXV reveals a statistical relationship (at the 1% level) between company performance and their use.

The Executive interviews showed that most companies described their intelligence gathering "system" as an informal, fairly ad-hoc procedure of simply filing any relevant information generated from a variety of sources. Typically, however, the most important mechanism for marketing intelligence-gathering was seen as the sales force reporting procedure. In this respect, as a group, the higher performing companies differed from the others both in terms of the range of information covered and its detail. Information was collected in all of the key areas (i.e., customers, competitors and markets) via daily and/or weekly report forms. This information would then be disseminated throughout the organisation (a process facilitated by their more "open" organisational structure/greater staff involvement in planning and decision-making), compiled customer by customer, prospect by prospect; with individual files being held in each case.

TABLE XXIV
Performance and usage of an on-going marketing intelligence-gathering system

	% High (N = 30)	% Average (N = 161)	% Low (N = 40)
High use	53.3	31.6	20.0
Average use	33.3	48.4	35.0
Low use	13.3	19.8	45.0
Chi-Square = 18.33	DF = 4	P = 0.001	
Cells with EF < 5 = 0			
Significant at the 1% level			

TABLE XXV
Performance and use of special computer based software to aid marketing decision-making

	% High (N = 27)	% Average (N = 155)	% Low (N = 40)
Yes	37.0	18.0	5.0
No	63.0	82.0	95.0
Chi-Square = 11.20	DF = 2	P = 0.001	
Cells with EF < 5 = 16.7%			
Significant at the 1% level			

IV. Conclusion

The combination of both a quantitative and a qualitative methodological approach to the research proved valuable. The personal interviews not only provided an important means of expanding, further, the findings derived from the mail survey, but, for the most part, they were highly supportive of them. Where discrepancies did occur it would appear that the in-depth interviews were highlighting one of the weaknesses of the more quantitative techniques, namely the assumption that certain terminology and/or concepts are equally understood, or heard about, by the respondents. Thus it would appear that, among small and medium sized enterprises in Britain, there is no uniform understanding of either the concepts or the terminology of marketing. Nevertheless the research findings confirm that, to a considerable extent, the most successful companies are those which are marketing orientated. Several traditional tenets of marketing are questioned by the findings, however. First, although both the normative and empirical literature suggests that successful companies are oriented to more formal marketing-planning, the study suggests that more than half (56.8%) of all medium sized companies do not prepare annual and longer-term plans and that strategic planning is rarely conceived by the marketing executives of such companies as being "formal". Typically, any longer-term planning of a strategic nature is not undertaken in the form of tangible, numbers-oriented documentation, but instead is highly informal and spontaneous, being expressed in the form of words and ideas. This need not be disadvantageous given the ability which most medium sized companies seem to have of involving their staff in on-going planning activities. Certainly this stands in sharp contrast to the majority of larger companies, on which much of the literature on marketing is based and where strategic planning and implementation are more likely to be divorced from each other, within separate functional areas of the business.

Secondly, in contrast to previous findings, no significant relationship was found between higher performance and a more pro-active approach to the future. In fact, the majority of companies (63.3%) adopt an approach based on forecasting the future and then planning accordingly, with a further 21% reporting that they adopt a totally reactive approach, whereby events are monitored and plans are adapted to meet them. Whereas perhaps larger companies, by virtue of their superior resources/market "power", could plan to create opportunities (through their ability to "influence" their market) this is less true for medium-sized companies which are therefore more likely to adopt a more pragmatic perspective.

Thirdly, although the literature suggests that successful companies are more likely to set offensive, aggressive marketing objectives, the survey did not support the hypothesis. Indeed, the majority of companies (55.8%) described their current marketing objectives as "steady growth", rather than "aggressive growth" or "market domination". Again, perhaps medium-sized companies are less prone to adopt an offensive stance due to their relatively small resource-base/capacity for "influencing" their markets, compared to larger companies — something that would be reflected in objective-setting.

Fourthly, the literature indicates two types of market which may be viewed as "attractive", to smaller companies: markets at the growth stage of the PLC, or markets which offer greater strategic "stability". However, the survey revealed no significant relationship between company performance and a range of market characteristics related to either of these factors, which would suggest that medium-sized companies are successful irrespective of the type of market in which they are located. Hence, it would seem that success is related more to the quality of marketing strategies and their implementation than to market location per se.

Even so, although the most successful medium sized companies do not necessarily follow the theoretical marketing model, they do demonstrate a better understanding of key marketing principles than do their poorer performing counterparts, as well as a greater consistency in their application. Significantly, marketing is not seen by such firms just as a business function, but rather a philosophy which guides all of the company's operations. These companies are also characterised by a high degree of cross-functional cooperation, which helps facilitate the implementation of a marketing oriented business philosophy and ensures a better integrated overall planning effort. Perhaps most notably however, the higher performing companies adopt a "flatter" marketing organisation structure, with fewer managerial layers, than the lower performing firms. Equally, they have a more "open", participatory and team-like approach to market decision making, suggesting there is overt recognition within the company that strategy, and those responsible for its implementation, cannot be divorced from one another.

Clearly such findings not only challenge several of the established shibboleths of successful marketing practice but have considerable implications for facilitating the development, and the successful operation of the smaller firm. From the results of the study it would appear that if they are to be successful, medium sized companies will certainly need to adopt a marketing orientated approach to their business operations, though the traditional marketing model, as it has been developed for large company operations, does not appear to be either entirely necessary or applicable. However, such tentative conclusions will require further verification and more detailed investigation in what remains a much under-researched aspect of the literature on the development of small and medium enterprises; it could be, for example, that with a stricter adherence to the principles and processes of traditional marketing, the performance of even the more successful smaller firms could be improved still further. Only further research into this complex and much-neglected field will help facilitate the growth and development of the medium-sized company.

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