

The Marketing Audit and Organizational Performance Profiling: An Empirical Study of Indian Companies

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Abstract

The current study is an attempt to investigate the use of strategy to address change in business performance. It tries to ascertain the use of marketing audit in organizations that can help them to establish, maintain and manage market orientation strategy. The paper examines the practice of marketing audit in organization and its impact on the business performance. The results however do not indicate any kind of significant relationship in the changes of market share and overall financial performance.

Keywords: Marketing Audit, Organizational Performance, Market Orientation

Introduction

The purpose of this study is to report the findings of research conducted to investigate the practice and perceived benefits of the 'marketing audit' and present an argument for considering the 'marketing audit' as a tool that can be used in implementation of a 'market orientation strategy'.

This study was conducted within the theoretical framework of the resource based view of the firm and with the need in mind for a progressive and incremental strategic reformulation by the firm in response to the dynamic 'market environment'. The resource-based view of the firm implies that the integration of intangible resources may induce or be able to explain heterogeneity among firms and thus be able to highlight the likely sources of strength and weakness to gain competitive advantage (Barney, 2001; Hunt, 2001; Taghian & Shaw, 2008).

The study was undertaken keeping the framework in study as well as the requirements of the company for a progressive and incremental strategy to manage the rapidly changing business environment. From the firm's perspective implies nitrating the intangible resources so that it may induce or is able to explain the diversity between the firms and thereby be able to highlight the means of strength and weakness of companies to gain competitive advantage in the market. (Barney, 2001; Hunt 2001; Taghian & Shaw 2008).

Research scholars of marketing have always tried to study and develop strategies that can guide organizations to understanding of the mix of environment factors effectively which can potentially impact the performance of an organization performance. In this attempt, numerous theories and models, including market orientation models, have been developed and test (Diamantopoulos & Hart, 1993; Kohli & Jaworski, 1990; Narver & Slater, 1990; Pelham, 2000).

The intention of market oriented strategy is to focus on the customers as well as the competitors. (Day & Nedungadi, 1994) because this strategy concentrates on (a) Systematic gathering of intelligence on present and potential customers and competitions, (b) the collection and handling of market intelligence gathered by the organization for the purpose of understanding the developments of the market, and lastly (c) to develop and put into practice a systematic response to the evolving market dynamics (Hunt & Morgan, 1995). But the current market orientation models are theoretical in nature and do not specify the systematic application and use of the strategy (Taghian & Shaw, 2008) as there is a shortfall of clarity and structure with respect to the methods and sources to be availed for generation of market information, the steps to effectively disseminate the information gathered, and the organizational response mechanism.

Due to the current shortcoming there is a need to develop a systematic review pattern to undertake the necessary readjustments according to the market conditions, a systematic classification of the parts of the business that need corrections and modification, and the elements in the market that the firm requires to readjust to. Therefore, there arises a need for a comprehensive tool in aiding with the implementation of a market orientation strategy, a tool that may provide support in the monitoring process for the continuous assessment of position of the organizations orientation towards its market. The tool needs to apply purposeful technique using a critical procedure and providing creative recommendations for changes aimed at maintaining an effective organizational focus on the market. (Taghian & Shaw, 2008)

Brownlie (1996a) suggested that marketing audit suggested that marketing audit is about assessment, knowledge and modification. Marketing audit can be defined as “The marketing audit is the comprehensive assessment of all angles of marketing operation in an organization systematically evaluating the plans, objectives, strategies, activities and organizational structure as well as marketing staff” (Loya, 2011). It can offer a diagnostic and prescriptive support in the setting up of, maintenance, and management of the market orientation strategy. Marketing audit can examine the authenticity of the sources of important information about the market in terms of their precision, topical and sufficiency; analyze the effectiveness of the internal intelligence dissemination process as well as the urgency and significance of the organizational responsiveness. Even though the marketing audit has been used since its introduction to the marketing management process, there is no evidence of its empirical validation in India. There have been researches carried out in United States by Capella & Sekely (1978) and in Australia by Taghian (2003).

Literature Review

Freidman & Miles (2002) in their study suggested that the sole purpose for the existence of a business is to create relevant and continuous returns stakeholders over a significant period of time. According to Taghian & Shaw (2008) achieving the fundamental objective of returns, a company can formulate strategies under a framework to undertake its activities that help the organization to maintain its competitive direction in the market. The strategic formulation should be aimed according to business needs with the sole intention to provide for a unique, sustainable and meaningful competitive advantage in its specific market segment (Day & Nedungadi, 1994) thereby achieving successful outcomes. The internal intangible resources and the external market condition may be used as a framework within which this strategy is formulated and implemented. Through a sustainable competitive advantage, and the development of a distinctive competence and relative superiority in the appropriate skills and resources, a business may be able to provide superior customer value, improve market share, lower relative costs of production and improve profitability (Day & Wensley, 1988). Moreover, the creation, application and maintenance of a competitive advantage are outcomes of a progressive contact with the environment and reaction to ever evolving market dynamics (Dierickx & Cool, 1989). Companies need to continuously monitor, assess and reassess their

competitive advantage because even a slight change in market dynamics caused by the action of competitors, government or for that matter customers can neutralize the competitive edge of companies (Hunt & Morgan, 1995),

Market orientation strategy can be understood as an insubstantial resource that represents the course the management has adopted with the view to achieve key organizational objectives. This way the company can create a strategy to set the schedule for, and direction of most other organizational activities in the organization. These choices may include the provision of tangible assets and facilities necessary, the marketing mix decision, investment and procurement of marketing resources, organizational processes to be adopted while conducting business, gathering of specific types of market intelligence, and the extent of organizational responsiveness to market changes.

Under the market orientation model, Intelligence generation has been elaborated as an act of acquisition and amalgamation of information related to the external and internal environment and including them within the organizational decision-making framework (Kohli, Jaworski & Kumar, 1993). According to Ottum & Moore (1997) the responsibility of processing and disseminating the market information rests with the organization. On the other hand the effective utilization of market intelligence and putting it to significant impact on business performance with regards to decisions is dependent on the skills and decision making style of the management (Deshpande & Zaltman, 1987) and the decision making processes of the organization (Taghian & Shaw, 2008).

Kotler, Gregor & Rodgers (1977) through their research established a framework for conducting the marketing audit and indicated the various organizational choices for conducting an audit. Since then many research scholars and authors have contributed to the development and theoretical improvement of the concept of marketing audit (Taghian, 2004; Taghian & Jaworski, 2008). Brownlie (1993) in his research has highlighted marketing audit as an instrument of strategic importance to enhance the managerial process through effective intervention and modification. Authors like Brownlie (1993) and Wilson (2005) highlighted the importance of a diagnostic questions, Kotler & Keller (2006) contributed by emphasizing on the issues of conducting marketing audit as well as highlighting the use of structured questionnaire with the intention of creating a structured form for conducting a marketing audit.

Taghian & Jaworski (2008) recommend that marketing audit should be an integral part of the marketing planning process but at the same time, Rothe, Harvey & Jackson (1997) suggested that marketing audit should broaden its scope by including the perspective of the global environment as the marketing audit and its implementation is dependent on the ability of the recommendation to influence a change in the business performance (Clark, Abela & Ambleer, 2006)

Although there is a lack of consensus among researchers about the process of marketing audit (Brownlie, 1999) but still it has been recognized that marketing audit process should be followed in line of a financial audit i.e., a systematic manner (Rothe, Harvey & Jackson 1997). Kotler (1967) has developed the process of conducting a marketing audit starting with the marketing objectives of a company, followed by an assessment of the implementation of the marketing plan concluding with the process of appraising the organizational design and organizations marketing personnel. Kotler (1997) is of the view that the process of marketing audit should precede after a marketing effectiveness review has been undertaken. According to Kotler (1997), the marketing audit should address six key areas of a company's marketing situation including its macro and micro environments, marketing strategy, marketing organization, marketing systems, marketing productivity and marketing functions. According to Wilson (2005), it is the responsibility of the auditor to collect set benchmarks developed by the industry and use them to compare the data collected of a company's marketing functions by

using an established marketing audit checklist by referencing the checklist created by Kotler (1967) covering the system level and function-level audits. An outline of the sequence for conducting a marketing audit has been suggested by Brownlie (1999).

Research Hypothesis

According to Kohli & Jaworski (1990) organizations can use market orientation strategy as potential framework to understand the markets and stay abreast with the changes through a systematic process of intelligence generation, its management and timely response to the changes in the market. But at the same time the market dynamics change at a very rapid rate and it is the ability of the auditor to keep a tab on the changes and issues with a progressive evaluation system (Bettis & Hitt, 1995). Accepting the logic of the marketing audit, it may be justifiable to expect that the comprehensive, systematic, independent, and periodic examination of the organizations marketing function will potentially, lead to early detection and awareness of the existing or emerging marketing issues that may influence the organizations business performance (Brownlie, 1996). In addition, the marketing audit provides recommendations for corrective actions to be prepared as a balanced tactical approach for readjusting the marketing initiatives in line with the market dynamics. The marketing audit technique provides not only information but also knowledge and insight. The implementation of the recommendations of the marketing audit can be of benefit to enhance the market orientation strategy of an organization in achieving business performance objective. From the given statements it can be hypothesized that

Hypothesis 1: There is a significant relationship between the implementation of the recommendations of the marketing audit and increase in the market share.

Hypothesis 2: There is a significant relationship between the implementation of the recommendation of the marketing audit and the increase in overall financial performance.

The practice of the marketing audit, in addition to linking the internal environment with the external environment's realities, may influence the attitude of management towards a more comprehensive understanding of the situation when all relevant environment factors are considered at the same time may change the attitude of management toward a more objective and less intuitive approach in decision making and promote more tolerance to allowing independent opinions to be expressed and be used to achieve desired organizational objectives. The model of the practice of the marketing audit constructed to estimate the association between the construct and the business performance measures. The construct represents the key aspects of experience with the marketing audit, including satisfaction with its conduct, the effective implementation of its recommendations, its objective and unbiased characteristics, and its periodic conduct. Therefore it may be suggested that

Hypothesis 3: There is a significant relationship association between the practice of the marketing audit and the change in market share.

Hypothesis 4: There is a significant association between the practice of marketing audit and the change in overall financial performance.

Marketing audit on the basis of its structure concentrates its investigation on the marketing function. Its emphasis is on the conduct of marketing activities without any directed reference to the internal environment directly or indirectly influencing the marketing activities (MacDonald, 1984). Therefore, it may be assumed that the usage of the marketing audit is strongly and positively related market share, a predominantly marketing factor, than to the increase in overall financial performance. (Taghian & Shaw, 2008).

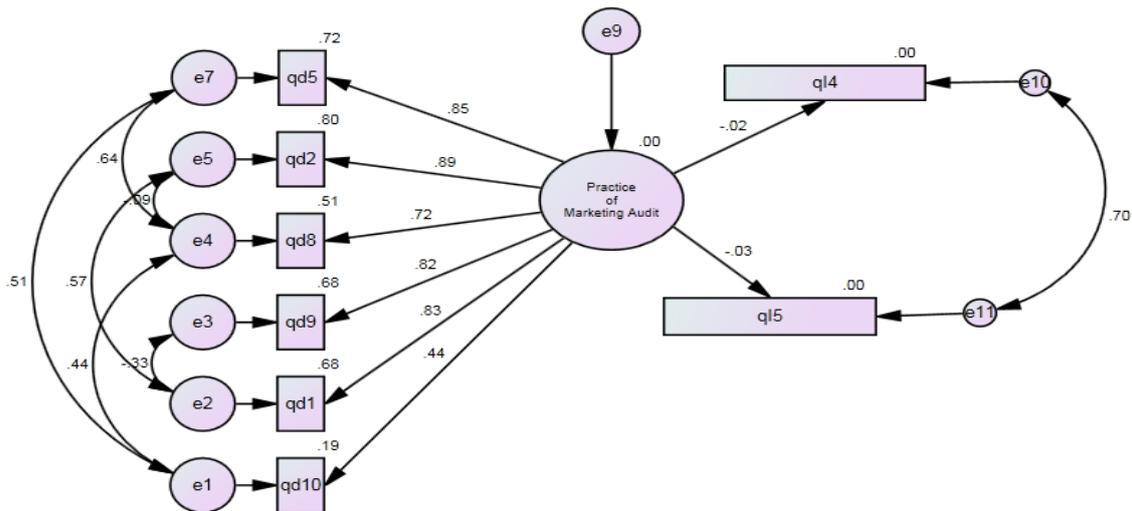


Figure 1: Model of the Practice of Marketing Audit and Organizational Performance

Standardized Estimates

Figure 1: Model of the Practice of the Marketing Audit

Model fit measures: Chi-square = 16.326, DF = 13, CMIN/DF = 1.256, GFI = .983, AGFI = .952, CFI = 0.997, PCLOSE .660, RMSEA = .034

Qd1: We conduct a marketing audit to investigate how to solve a marketing problem.

Qd2: We conduct marketing audit periodically

Qd5: Our marketing audit is conducted without bias or prejudice.

Qd8: We consider the marketing audit as a way to stay in touch with the dynamic market

Qd9: We usually implement the recommendations of a marketing audit effectively.

Qd10: We usually conduct a marketing audit before we begin the marketing planning process.

Qi4: Market share

Qi5: Overall Financial Performance.

Table 1: Factor Loading

Component Matrix		
	Particulars	Factor Loading
qd1	We conduct a marketing audit to investigate how to solve a marketing problem	.837
qd2	We conduct marketing audit periodically	.883
qd5	Our marketing audit is conducted without bias or prejudice	.934
qd8	We consider the marketing audit as a way to stay in touch with the dynamic market	.850
qd9	We usually implement the recommendations of a marketing audit effectively	.812
qd10	We usually conduct a marketing audit before we begin the marketing planning process.	.643

Method

The practice of the marketing audit and its perceived benefits are examined in the context of Indian economy and its associations with change in business performance are investigated. The unit of analysis in this study has been defined as the "strategic business unit". An SBU is an organization (independent or as part of a larger organization) with clear business strategy and autonomy in decision-making (Aaker & Jacobson, 1987) and cost and profit accountability (Narver & Slater, 1990; Jaworski & Kohli, 1993). Another reason for choosing the SBU as a unit of analysis was to enable the comparison of results with previous research conducted in this area using the same unit of analysis (Jaworski & Kohli 1993; Narver & Slater 1990). This, therefore, identified the respondent the senior marketing person within the SBU. The scale of assessment was based on the scale designed and developed by Taghian (2004) but with some modification to suit the requirement of our study. The respondents selected for the research were CEO of the company or Managing Director or senior marketing officers nominated by them. The idea was that these were the people who are part of the marketing decision making process and were in the position to provide the right framework of marketing function in the organization.

The sampling frame used was the database of Bombay Stock Exchange which has a total of 5163 listed companies (as of September 2012). The database provided all the company demographic information needed for the study, including the name of the CEO and the company address, as well as annual gross revenues, number of employees, description of the business, etc. Total of 216 responses were useable from the mailed out questionnaires. On the basis of chi-square testing, the statistical insignificance ($p > .05$) indicated that there was no difference between the returned questionnaires and the outgoing sample regarding industry type, annual revenue, and number of employees, and questionnaire printing attributes and incentive level had no influence on response rates. The KMO measure of sampling adequacy of .9 (acceptable level of .6) was achieved and Bartlett's test of sphericity ($p < .01$) indicated the suitability of the data for

factor analyses.

Table 2: Correlation

		qd1	qd2	qd5	qd8	qd9	qd10	qI4	qI5
qd1	We conduct a marketing audit to investigate how to solve a marketing problem								
qd2	We conduct marketing audit periodically	.884**							
qd5	Our marketing audit is conducted without bias or prejudice	.706**	.755**						
qd8	We consider the marketing audit as a way to stay in touch with the dynamic market	.566**	.594**	.845**					
qd9	We usually implement the recommendations of a marketing audit effectively	.578**	.734**	.701**	.621**				
qd10	We usually conduct a marketing audit before we begin the marketing planning process	.379**	.363**	.616**	.596**	.373**			
qI4	Gain in market Share	-0.05	-0.01	-0.02	-0.03	0.02	0.02		
qI5	Change in overall financial performance (y-o-y)	-0.07	-0.01	-0.05	-0.07	0.024	0.04	.705**	

** . Correlation is significant at the 0.01 level (2-tailed).

Results

H1 and H2 were tested by correlating the implementation of the marketing audit and perceptions of the change in the two business performance indicators used in the study. The results show that the implementation of the recommendation of the marketing audit does not correlate with the change in market share ($r=.02$, $p>.05$) and the change in overall financial performance ($r=.02$, $p>.05$). Therefore, both our hypothesis H1 and H2 are not supported.

Moreover, the practice of marketing audit, a construct that reflects a range of activities related to, and perceptions about the marketing audit (Figure 1), is also not associated with the change in market share ($R=-.02$, $p>.05$) and financial change ($R=-.03$, $p>.05$). Therefore, our hypothesis H3 and H4 are also not supported.

In comparing, the users and nonusers, the results show that there is no significant difference in terms of change in market share ($t(214) = .432, p > .05$) and overall change in the financial performance ($t(214) = 3.306, p > .05$). This result suggests that the respondents did not implement the changes of the marketing audit.

The demographic profile of the sample used in this study with respect to the users and non-users of marketing audit were compared firstly on basis academic qualification of the respondents in the group of users of marketing audit Hypothesis 7 is not supported. There is no significant relationship between the highest level of education of the senior manager is associated with the usage of the marketing audit periodically by an organization ($\chi^2 = 2.651, df = 3, p > .05$). There is higher representation of master's degree qualified managers in the users of the marketing audit group of companies.

There is no evidence to support the hypothesis that an organization's age, in terms of when the organization was founded, differs in the usage of the marketing audit periodically ($\chi^2 = 6.402, DF = 5, p > .05$). There is higher representation of the users of the marketing audit in the group of the companies founded in the categories of 1950 or earlier.

Approximately about 66 per cent of the total respondents indicated that their organization "periodically" use the marketing audit. Users and non-users of the marketing audit periodically. The methods of conducting the marketing audit is dominated by self-audit (62 per cent), audit from above (62%), company task-force audit (34 per cent), and outside audit (37 per cent). There is no evidence of the superiority of any method of conducting the audit in terms of the change in the business performance indicators used in this study. The procedures followed were similar to the steps followed by Taghian (2003, 2008). Problems encountered in conducting a marketing audit included the lack or unavailability of data, friction between people conducting the audit and the company personnel and the lack of a standard of comparison. The respondents indicated that to improve the effectiveness of the marketing audit would require: (1) a better understanding of the audit and its objectives by all concerned, (2) a formalized audit structure, and (3) the use of a checklist of necessary information for the audit. At a lesser extent, the improvement of the marketing audit can be achieved by the improvement in communication within the organization of the conduct, the procedure, personnel involvement, and the benefits of the audit.

Limitation of the study

There are some limitation in this study as related to sampling, response rate, choice of respondent and the measures of performance used. We have used following issues need to be highlighted as they possibly impose some limitations on the results of this study, requiring caution in attempting to generalize the results. These issues are related to the content and the conduct of the study with consideration to sampling, response rate, choice of respondent, and the measures of performance used. The database selected included 22,000 entries comprising a mix of different types of companies, industries and sizes from all states of India. The information provided in the database included the required demographic indicators for the study. The database used as the sample frame was not fully representative of all companies in India as we have selected only those companies listed on the Bombay Stock Exchange.

The changes in business performance measures used in this study are subjective assessments used frequently in marketing studies and are claimed to be good indicators of objective measure of performance. The term "periodically" refers to the conduct of the marketing audit at specific intervals used by each respondent company.

The respondents in this study are the senior marketing personnel of selected organizations. However, there can be no certainty that these intended individuals were those actually completing the questionnaire.

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