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The Role of Strategic Marketing on Company's Business Performance

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ABSTRACT It is argued that the relationship between strategic marketing efforts and business performance is still vague for academicians and decision makers. Further, it has been said that it is difficult to establish a cause and effect relationship between marketing efforts and performance. The researcher in this study has tried to identify and test the above marketing premise on the context of beer manufacturing firms in Ethiopia. The result of the study revealed that most of the components of strategic marketing (innovation orientation, inside – out capability and outside – in capability) have a direct and positive relationship with performance. However, Market orientation was an exception, which has resulted in a negative relationship with the company's performance.

KEYWORDS : Strategic Marketing, Market Orientation, Innovation Orientation, Inside – Out Capability, Outside – In Capability, Business Performance

INTRODUCTION

Ethiopia is Africa's second most populated country with a population of more than 85 million. During the past ten years foreign companies have completed substantial investments in the Ethiopia's beverages industry and numerous manufacturers have expanded their installed capacity in an effort to meet growing demand. The industry has already attracted big multinational companies from all over the world like France, Netherlands, Great Britain and Belgium but it has not been much noticed how strategic marketing subjects like market orientation, innovation orientation and marketing capabilities contribute to the company's business performance in the industry. Therefore, the main aim of the study is to investigate the role that strategic marketing is playing in this intensely competitive beer industry of Ethiopia and its effect on the company's business performance.

LITERATURE REVIEW

Market orientation

In the Marketing literature, Market orientation has been referred to as a set of activities developed by companies to monitor, analyze and respond to market changes. Narver and Slater (1990), regarded market orientation as "the organizational culture that effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, superior performance for the business", these authors put more emphasis on the content (focuses) of the construct, where basic components are: customer orientation, competitor orientation and inter functional coordination.

Innovation orientation

It is noted by many scholars that a firm must be innovative to survive in a volatile environment (Johnson et al., 1997). In addition, Hurley and Hult's (1998) stated that firms with greater capacity to innovate will be more successful in responding to their environments and developing new capabilities that lead to competitive advantage and superior performance, according to Calantone et al, 2002, firm innovativeness is positively related to firm performance.

Inside-Out Capabilities

The literature suggests that inside- out capabilities contribute to effective market participation, such as effective financial, human resource and marketing management. Due to the challenges and difficulties of controlling over external factors, it is a must for firms to focus on their own internal capabilities. The Resource Based View has proven to be an influential and useful analytical structure for the analysis of many strategic issues and the inside-out perspective originates from the RBV, Gibous and Kemp (2003).

Outside-In Capabilities

Literature suggests that Outside- in capabilities help in understanding and participating in markets, such as being effective in using market information, and building customer relationships. It is also stated that in marketing strategy formulation and implementation, outside-in perspective is a new perspective and its emphasis is on the notion that firms seeking a competitive advantage must actively engage with customers, connect with partners and be responsive enough to the market information. The purpose of outside-in capabilities is to connect to the outside environment and facilitating the business to compete in the market and creating enduring relationships with customers, channel members, and suppliers.

Business performance

Performance is another subject of controversy in terms of its meaning, definition, measurement and parameters. The debate regarding performance stems out of its complexity. Various authors have been forwarding their own insights regarding its meaning and measurement.

Some authors put the definition of performance in line with competitiveness, productivity, efficiency and effectiveness. According to Siminica M. (2008) performance is achieved when an organization is at the same time efficient and effective. Likewise, Verboncu I. & Zalman M. (2005) stated that "performance is a particular result in the Management, Economics, marketing domain etc. which gives characteristics of competitiveness, efficiency and effectiveness to the organization and to the structural and procedural components.

Hence, based on the above definitions, there are certain ways of commonalities and Performance can be explained as a blended aspect of different concepts such as profitability, growth, return, productivity, efficiency and competitiveness.

In addition, according to Dobrin, C.O. et al (2012), performance has been explained from three dimensions as: Reaching strategic objectives, reaching organization's competitiveness by efficiency and effectiveness and creation of wealth or value to an organization. Even though, there is confusion in clearly putting and defining marketing performance, there is general agreement regarding the multidimensionality of marketing performance, with marketing efficiency and marketing effectiveness being two subcategories of the broader notion of marketing performance Gao, Y. (2010). He also argue that the traditional view of marketing productivity is concerned primarily with the effect of efficiency on the marketing function but the modern view considers marketing productivity to include both marketing efficiency and marketing effectiveness Gao,

Y. (2010)

There is a considerable debate on the appropriateness of various approaches to the concept, utilization and measurement of organizational performance. It is argued that its measurements are both objective and subjective but scholars. Many authors agree on the idea that performance is a riche concept and it should be treated as a multidimensional construct composed of various related elements. It is argued that business performance has three major categories in which it can be identified. These are: customer performance (satisfied and loyal customer), market performance (sales volume and market share) and financial performance (profit, ROI).

Venkatraman and Ramanujam (1986), cited in Gibous and Kemp (2003) have pointed out that firm performance is a multidimensional construct and can be seen from three different perspectives: Financial performance, business performance and organizational effectiveness. Like others, financial performance includes Accounting-based standards such as return on assets (ROA), return on sales (ROS) and return on equity (ROE) measure financial success. Business performance measures market share, growth, diversification, and product development. The third perspective seen performance as organizational effectiveness and consists factors like employee satisfaction, quality and social responsibility.

Strategic Marketing and Business Performance

Previous studies on the linkage between strategic marketing and firm performance has revealed variety of relationship between the variables. Many of the works by marketing scholars and practitioners confirmed marketing as a central business activity that enables a firm to achieve superior performance Drucker, (1954).

Further, it is argued that marketing-oriented firms outperform those who are not in achieving high level of sales, market share, and profit, Yoo et al, (2000), cited in Liem and Aron, (2009). The link between innovation orientation and business performance has been also a topic of interest with different authors, Jaakkola et al, (2006) and the results of those studies has revealed that as there is a direct and positive relationship between innovation orientation and business performance. There are studies supporting the relationship of innovation and performance in organizations (Wong, 2012; Nambisan, 2013; Dobni, 2013). Even though many scholars argue that too much innovation orientation results in forgetting customer needs, there is still a positive business performance of innovation orientation. Many authors have associated the relationship between capabilities and business performance as positive. According to Jifeng and Jiayin, (2009), firms adopting outside-in perspective has demonstrated high profitability, customer satisfaction and reduced cost.

METHODOLOGY

Questionnaires were used to assess and gather the opinions and perception of the sample respondents regarding strategic marketing, competitive advantage. Although there are currently 12 beer manufacturing firms in Ethiopia, 11 firms were taken as a sample. This is because one of the firms is a newly established and has not completed one fiscal year yet which makes it not viable to get full information on its market and performance. The sample size had to be representative enough of the 11 beer manufacturing companies for the sake of generalization and precision. A standard questionnaire was adopted and modified based on an extensive review of the literature in the areas of strategic marketing and business performance. The questionnaire was customized in a way that would allow the researcher to draw out the information relevant to the study. Marketing managers, Supervisors, sales managers and distribution managers of the firms were asked to indicate their opinion regarding their market in relation to their company's market orientation, innovation orientation, inside - out capability, outside – in capability and business performance.

RESULTS

Table 1: Correlation of strategic marketing components with business performance

Components of strategic marketing		Business Performance
Market Orientation	Pearson Correlation	.340**
	Sig. (2-tailed)	.000
Innovation Orientation	Pearson Correlation	.810**
	Sig. (2-tailed)	.000
Inside Out Capability	Pearson Correlation	.646**
	Sig. (2-tailed)	.000
Outside In Capability	Pearson Correlation	.865**
	Sig. (2-tailed)	.000
Overall Strategic Marketing	Pearson Correlation	.810**
	Sig. (2-tailed)	.000

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

The results indicated on table 1 above points out that the correlation coefficients for the relationships between strategic marketing components and business performance are direct and positive ranging from low to high correlation coefficients. Significant correlations were shown to exist between outside- in capabilities and business performance ($r = .865$, $p < 0.01$), Innovation orientation and business performance ($r = .810$, $p < 0.01$) suggesting that higher values of both strategic marketing components translate into higher levels of performance. Substantial and significant relationship was found between inside- out capabilities and business performance ($r = .646$, $p < 0.01$). In addition, low but positive relationship existed between market orientation and business performance ($r = .340$, $p < 0.01$). The relationship between the overall strategic marketing components and business performance has also resulted in high positive and significant relationship ($r = .810$, $p < 0.01$).

Regressing Business performance on the selected factors of Strategic Marketing

$$BP = \beta 1 + \beta 2MO + \beta 3IO + \beta 4IC + \beta 5OI$$

Where: **BP** = Business Performance (the dependent variable)

MO, IO, IC and **OC** are the explanatory variables or the regressors (Market orientation, innovation orientation, inside – out capability and outside – in capability)

β1= is the intercept term- it gives the mean or average effect on **BP** of all variables excluded from the equation.

β2, β3, β4 and **β5** refer to the coefficient of their respective independent variables which measures the change in the mean value of **BP**, per unit change in their respective independent variables

Hypothesis

Ha: Strategic Marketing Will Significantly Explain the Variance in Performance

H1: The variable Market orientation will significantly explain the variance in performance

H2: The variable innovation orientation will significantly explain the variance in performance

H3: The variable Inside-out capability will significantly explain the variance in performance

H4: The variable outside-in capability will significantly explain the variance in performance

Table 2a. Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.879[a]	.773	.764	.39265

a. Predictors: (Constant), Outside In Capabilities, Market Orientation, Inside Out Capabilities, and Innovation Orientation

Table 2 b ANOVA[b]

Model 1	Sum of Squares	Df	Mean Square	F	Sig.
Regression	53.037	4	13.259	86.002	.000a
Residual	15.572	101	.154		
Total	68.608	105			

a.Predictors: (Constant), Outside In Capabilities, Market Orientation, Inside Out Capabilities, Innovation Orientation

b. Dependent Variable: Performance

Table 2c Coefficient

	Unstandardized Coefficients		Standa-rdized Coefficient		
Model 1	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
Constant	.576	.296		1.943	.055
Market Orient.	-.200	.076	-.156	-2.621	.010
Innovation Orient.	.097	.119	.120	.812	.419
Inside Out Cap	.031	.087	.032	.353	.725
Outside In Cap	.893	.126	.819	7.109	.000

a. Dependent Variable: Performance

As indicated on the model summary (table 2a, the multiple correlation among the four strategic marketing variables and business performance is .879 as indicated by R. furthermore, given the R square value of .773, it may be deducted that only 77.3% of the variance in business performance can be accounted for by these four strategic marketing variables. The remaining 22.7% of variance is explained by other factors not considered in this study.

The f statistics 86.002 at 4 and 101 degree of freedom is statistically significant at the 0.01 level. Therefore, the variables market orientation, innovation orientation, outside- in capabilities and inside- out capabilities together significantly explain the 77.3% of the variance in business performance. Therefore, the alternate hypothesis will be accepted as the selected explanatory variables (market orientation, Innovation Orientation, Inside-out capabilities and outside-in capabilities) will significantly explain the variance in business performance. While outside- in capability with a beta value of 0.819 was found the best predictor of performance, the other three variables are found to be the least predictors. Surprisingly, market orientation has resulted in a negative relationship with performance.

CONCLUSION

In search for the best predictor of business performance among strategic marketing variables, outside – in capability was found to have the strongest relationship with business performance, in which the result is related with and supported by prior findings. In this study, the next strong relationship links were between innovation orientation and business performance. Studies evidenced that innovation orientation has positive relationship with financial performance. The third predictor, inside – out capability and business performance relationship has resulted in a positive link. Other researchers also found a higher relationship between inside - out capabilities and financial performance. Among the four strategic marketing variables, only market orientation was found to have a negative relationship with business performance. Even though Superior firm performance as a result of market orientation is extensively supported in the literature this study resulted in the contrary.

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