Abstract

The marketing planning process is said to influence organisational performance. This influence is realised through the adoption of a focused approach aimed at achieving specific marketing objectives, which motivates the adaptation of the internal capabilities of an organisation in facilitating an effective implementation. This study investigated the association of formal marketing planning with business performance. The results showed that marketing planning has a stronger, positive relationship with market share, than with the overall financial performance of the organisation. The study also compared the associations of marketing planning and market orientation variables with the performance measures. The results indicated that the two variables associate at about the same magnitude with market share and the overall financial performance.

Keywords: marketing planning, market orientation, organisational performance, market share, overall financial performance

Background

This research was designed to address the benefits of marketing planning, in terms of its association with business performance, which appears to be inconclusive in the marketing literature. Although the overall benefits of marketing planning are acknowledged, in principle (Chae and Hill, 2000; Pulendran, Speed and Widing, 2000; McDonald, 1996a), there is little empirical evidence available on the measured association of marketing planning and business performance. It has been suggested (McDonald, 1996b) that marketing planning can play a role in the transformation of the internal capability mix of an organisation to seek environmental intelligence and to use the insight gained from it, to respond effectively to market dynamics. It may, therefore, facilitate the long-term provision of superior value to the customer and the achievement of a sustainable competitive advantage in the market (McDonald, 1996b).

Engaging in a marketing planning process, potentially, stimulates an organisation to adopt a formal approach to looking inwardly in the context of the future operational environment and to facilitating the emergence of an intended ideal future for the organisation (Pulendran and Speed, 1996). There have also been suggestions that marketing planning provides greater benefits if it is used as an antecedent to a market orientation strategy (Pulendran, Speed and Widing, 2000). However, this notion may be considered somewhat as reverse logic, since an organisation, arguably, needs to be market oriented before it would consider marketing planning as a tool of reacting to market dynamics. This appears to be an expected outcome, as marketing planning may be considered as a manifestation of being market oriented. Additionally, it may be suggested that marketing planning transcends market orientation, since it provides for a reaction to trends in the market and in anticipation of market dynamics in the short and long-term future, given the duration of the plan. In comparison, market orientation (Kohli and Jaworski, 1990; 1993), is intelligence management directing organisational response mechanisms on a more frequent basis.
Marketing planning represents a managerial process that facilitates the marketing function’s concentration on its capabilities and the suitability of marketing objectives (Chae and Hill, 2000). Furthermore, the marketing planning process necessitates an organisation adopting a disciplined approach to an orderly and purposeful management of marketing. On the other hand, there appear to be some negative aspects to marketing planning. These may, at times, include process restrictions and dictated strategies from the head office or from the distant corporate planning authority without providing adequate implementation directions (Campbell and Alexander, 1997; Wilson and McDonald, 2001). Additionally, the strategic planning literature regarding the relationship between planning and organisational performance appears to be inconclusive (Miller, 1994). This inconsistency may be attributed to the exclusion of certain influential market factors that can moderate the association between marketing planning and business performance in the studies conducted. Mintzberg (1990; 1991) suggested that adherence to rigid [strategic] planning may stifle creative thinking denying the firm from exploring those opportunities that may not vividly present themselves. Miller (1994) suggested that this may be due to the level of turbulence in the market.

It has been suggested that company growth and anticipated growth potential may increase the motivation for a company to formalise its marketing planning, while some smaller companies may be able to conduct business successfully without the need for a formal planning process (Chae and Hill, 2000). Additionally, a formal marketing planning process, potentially, may result in improvements in planning through setting standards, encouraging better preparation, stimulating employees’ involvement, and elevating the skills gained in planning due to periodic practice. Therefore, the benefits of marketing planning would, arguably, be in direct relation to the achievement of the intended marketing objectives and the contribution that it may have to the realisation of the company’s growth potential. At the same time, it should be indicated that since marketing objectives are designed to facilitate the overall organisational performance, it is expected that marketing planning would be associated directly with non-marketing overall organisational performance as well as with marketing performance (Wilson and McDonald, 1994). The question that arises is whether this harmony of objectives is being realised. Additionally, the literature lacks any reference to the demographic characteristics of companies that adopt formal marketing planning. It would be informative to address this issue and identify if there are demographic differences between those that plan formally and those that do not. These differences could be in terms of some common corporate demographics, including company background, company size, and the education of the senior marketing personnel.

Specifically, this research tested the following hypotheses:

H$_1$ Marketing planning is related more strongly to the marketing performance of the organisation, than it is to the overall financial performance of the organisation.

H$_2$ Organisations which use a formal marketing planning process are also market oriented.

H$_3$ Organisations which plan formally achieve a stronger marketing performance than those which do not.

H$_4$ Organisations which undertake marketing planning using a formal process are different to those which do not, in terms of their demographic characteristic of:

H$_{4a}$ Home country of the organisation (Australia or other countries).
A mail survey was designed and implemented to test the hypotheses. A mail survey can provide the benefits of wide reach, low distribution bias, and no interviewer bias, as well as time and cost savings (Sittimalakorn and Hart, 2004). The questionnaire for this study was developed as part of a larger marketing research project. Given the specific objectives of the study and the absence of an existing instrument used by other researchers, the questions on marketing planning had to be developed using various sources including a series of personal interviews with some senior marketing managers familiar with, and participating in, formal marketing planning, using the literature on marketing planning and personal experience in corporate marketing planning as a basis. The questions developed were modified through a two-stage pre-test process. The first stage included a peer (marketing academics) and marketing practitioner review using a small sample of marketing managers. The feedback included recommendations for the alteration, addition, and deletion of some questions. The modified version of the research instrument was re-tested and was confirmed as suitable. The resulting instrument included items for marketing planning in respect of planning processes, information sources used, and the influences on the planning decision process, the components of market orientation, and the performance measures. All measurements were subjective assessments by the respondents using a seven-point Likert-type scale (Wren, 1997) and other response formats.

The sample frame used was Dun & Bradstreet’s Australian businesses database (September 1999 edition) including 22,000 businesses. The sample selection was based on the largest companies, in terms of reported revenue, in both manufacturing and services. The assumption was that these companies had a greater likelihood of practising more “professional” marketing. Of these companies, the largest 1,441 companies were sent questionnaires with a personally addressed letter to the chief executive requesting that the questionnaire be completed by the senior marketing person. The mail out included an incentive of a $2 Scratch and Reveal lottery ticket with 1,000 of the questionnaires. Complete anonymity was guaranteed as no traceable identification was requested on the questionnaire. The returned useable questionnaires totalled 216, after allowing for non-deliverables, those returned not attempted, and those returned incomplete, which was a response rate of about 16 per cent. The comparison between the outgoing sample profile and the returned questionnaires indicated no significant non-response bias or incentive effect.

The data were analysed using both descriptive measures and exploratory factor analysis to identify the items contributing to each component. All measurements were tested separately for internal consistency-reliability (Cronbach’s alpha) and predictive validity. The correlation matrix supported the predictive validity of the factors contributing to marketing planning and market orientation separately as indicated by the strong and moderate correlations between them. The discriminant validity was confirmed by the lack of correlation between the components of different models. All latent variables were calculated using single factor loadings representing the observed variables contributing to them (Deng and Dart, 1994).
AMOS structural equation modelling was used to estimate the multiple groups “causal” relationships between the measures of marketing planning (Figure 1) and market orientation (Figure 2). The testing of the hypotheses required, in part, the comparison of the associations between marketing planning and market orientation, and the organisational performance measures.

Results and Discussion

The results indicated (Figure 1) that there is stronger association between marketing planning and market share ($R = 0.79$, $p<0.01$), a predominantly marketing influenced performance measure, than the overall financial performance ($R = 0.43$, $p <0.01$), which is influenced by other organisational functions in addition to marketing. Therefore, $H_1$ is supported. This result may suggest that marketing planning, as a formative variable in the model (Figure 1), is not equally influential on the overall organisational performance as it is on a marketing performance measure. Coincidentally, the results of the market orientation model (Figure 2) indicated almost the same magnitude of association with both measures of performance, as did marketing planning.

The results also indicated that those companies that adopt a formal marketing planning process are different to those that do not with respect to being market oriented ($t(100) = -6.03$, $p <0.01$), and the two measures of formal marketing planning and market orientation are correlated positively and moderately ($r = 0.44$, $p <0.01$). Therefore, $H_2$ is supported. Additionally, there is a difference between those organisations that plan formally and those that do not with regard to the market share performance measure ($t(100) = - 4.51$, $p <0.05$). The results show that there is a positive association between formal marketing planning and market share performance ($r =0.34$, $p <0.01$), that is, the higher the degree of marketing planning the higher the level of market share, therefore, $H_3$ is supported. It needs to be noted that formal marketing planning is not correlated with the overall financial performance.

The results revealed no demographic differences between companies using a formal marketing planning process and those that do not, in terms of $H_{4a}$ to $H_{4f}$, except for the age of the organisation (chi-square= 16.7, $p <0.01$). The users of a formal marketing planning process have a larger representation in the category of companies founded in 1961 to 1970. Therefore, $H_{4d}$ is supported, partially, in the sense that the relationship found was not direct, i.e., it held for only one category, and did not hold for all organisations above a certain age.

About 52 per cent of the respondents indicated that they use a formal marketing planning process. However, of those who reported that they have no formal marketing planning, still 46 per cent indicated that they usually prepare a marketing plan.

Implications

Considering that a marketing plan is prepared by the marketing department in support of the organisational objectives, it was expected that marketing planning would be related to the overall financial performance as strongly as it is with the market share measure of performance. That appears not to be the case. One conclusion from this result could be that the marketing objectives are not related closely to the overall financial objectives, which would be a major concern.
Marketing planning and market orientation both associate with a marketing performance measure, in this study market share, and the overall financial performance at almost the same magnitude for each performance measure. The association with the marketing performance is strong, but it is moderate with the overall financial performance. This may suggest that these marketing manifestations are not necessarily recognised to be contributing appropriately to the achievement of the overall financial performance, in contrast to their perceived relationship with marketing performance, more narrowly. This aspect needs to be investigated further as this situation may, potentially, create confusion about marketing’s role and legitimacy in organisations.

**Figure 1 Marketing planning model**

The fit statistics indicated an acceptable model ($\chi^2 = 90.80$ df = 50, $p = 0.00$, CMIN/df = 1.82, RMR = 0.11, GFI = 0.94, AGFI = 0.90, CFI = 0.94, TLI = 0.93, RMSEA = 0.06.

**Figure 2 Market orientation model**

The fit statistics indicated an acceptable model ($\chi^2 = 543.00$ df = 28, $p = 0.00$, CMIN/df = 1.93, RMR = 0.12, GFI = 0.95, AGFI = 0.90, CFI = 0.95, TLI = 0.92, RMSEA = 0.07.
References


