MARKETING ORIENTATION VERSUS PRODUCTION ORIENTATION IN THE BANKING INDUSTRY

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Previous studies have alluded to the differences in profitability between companies with marketing or production orientations. Apparently, either mindset originates at the corporate level. This study investigated the orientation style in banks in the southeast region of the United States. Survey questions related to profits, planning, research, advertising, and sales. Return On Assets (ROA) and Return On Equity (ROE) were used to gauge profitability. Results show that questions on profits and sales proved to be significant whereas the questions on research and advertising were not. The planning questions were invalidated because of conflicting responses.

INTRODUCTION

Have the days when marketing directed a company's strategy declined? Is the production orientation predominant? In discussing corporate mentality, Ansoff (1990, p. 62) noted a gradual transition in the 1960s from a marketing mentality to a strategic mentality in firms. Ansoff (1990, p. 64) defined strategic mentality in relation to a marketing mentality when he said " . . . the strategic manager has no sentimental attachment to 'our markets', 'our products', and 'our customers', which is typically found in the marketing mentality." From Ansoff's point of view, the strategic planner, who does not embrace the marketing concept, will give the company direction, not the marketer. Studies by Rich (1979), Hopkins and Bailey (1984), and Raymond and Barksdale (1989) found a decline in the role of marketing with the rise of strategic planning, thus giving support to Ansoff's observations.

In light of the repositioning of marketing to a functional level in many U.S. firms, it is time to empirically judge if firms with a marketing orientation compared to those firms with the opposite orientation, the production orientation, are more profitable. Now that marketing appears to be assuming a lesser role in some companies in America, it is appropriate to investigate whether this decision was justified. The service industry was selected for this study because there has been a reduction in the importance of marketing in the consumer goods and industrial goods industries (Rich 1979; Hopkins and Bailey 1984; Raymond and Barksdale 1986). The following study investigated the orientation and performance in the banking industry because marketing has proliferated since deregulation. Banks sought marketing solutions to increase profits after deregulation (Falvo, 1992).

Much has been written about how beneficial the marketing orientation is for a company, but no studies have verified this supposition. Only three studies have tried to link financial performance with marketing orientation: Hooley, West, and Lynch (1984) in the United Kingdom, Webb (1987) in the United States, and Verhage and Waarts (1988) in the Netherlands. These studies all suffer from the same weakness, i.e., using self-reported financial data.

These opposite concepts, marketing orientation and production orientation, were evaluated in this study to determine if one orientation is more profitable to the company than the other. The hypothesis is based on the assumption that organizations with a

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marketing orientation will be in a better position to meet customer wants and needs. This marketing-oriented firm should be able to take advantage of opportunities and meet challenges as they arise in order to outperform firms with a production orientation.

An investigation of the literature reveals the need for empirical evidence to support the hypothesis that companies with a marketing orientation perform better. Although these studies are few and dated, they are the only studies to relate to the hypothesis presented.

STRATEGIC PLANNING AND MARKETING STUDIES

The majority of earlier studies in corporate strategic planning found a positive relationship between formal strategic planning and financial performance (Ansoff et al. 1970; Thune and House 1970; Herold 1972; Wood and LaForge 1979). However, a few researchers questioned the premise that strategic planning leads to successful performance (Fulmer and Rue 1974; Sheehan 1975) and a study by Fredrickson and Mitchell (1984) failed to find a positive correlation between planning and performance. Only three studies have tried to specifically assess the impact of corporate strategic planning on marketing. These studies are discussed in chronological order.

Rich Study of 1979

Rich surveyed 20 forest-product companies in 1979. The results of the study demonstrated that the role of marketing declined with the rise of strategic planning. No marketing vice-presidents reported directly to the chief executive officer (CEO). Rich (1979) noted:

> The highest level at which most marketing executives were found was just under the head of a strategic business unit, be it at the group or at the division level. Those few marketing executives who were found at the corporate level tended to be one of three types. The first type was a "V.P., Distribution Division" and was found in companies with strong captive distribution systems. His job was overseeing the distribution, usually at the wholesale level, of all or some of the products of the company's mills. Sometimes he drew on outside sources of supply as well. The second type carried a title such as "Manager of Marketing Planning" and reported to a "Director of Strategic Planning" who came under the CEO. The third type, sometimes carrying the title "Marketing Services Manager," reported to the president or executive vice-president, but his duties were confined mainly to handling important national accounts, that is, large customers who bought from many different divisions of the company. Such national account sales managers, however, were more likely to be found down at the group level (pp. 5-6).

Rich suggested that future studies explore the vanishing marketing positions at corporate levels in other industries. The Hopkins and Bailey study, which is discussed next, explored the declining number of marketers in strategic planning.

Hopkins and Bailey Study of 1984

Hopkins and Bailey surveyed 294 large, multi-business manufacturing firms in the 1970s. They identified four characteristics that can be associated with the presence or absence of a Chief Marketing Executive (CME). Companies with unrelated businesses, separate operating entities, or extremely large revenues ($500 million) would more likely not have CMEs (p. vi). If the businesses are closely related, though, such as in serving similar markets, there is more likely to be a CME. The other two qualifying factors were leadership style of top management and competency of personnel.

According to Hopkins and Bailey, companies with CMEs had similar divisions or marketing activities. Some companies had assigned new product development and marketing research to strategic planning departments. With the advancement of decentralization during the decade, the number of CMEs declined. By the end of the study, five out of ten companies had someone designated as their chief planning executive but had no marketing counterpart. Two companies in ten had both and nearly one in ten had a CME (p. viii).

Based on their 1984 research, Hopkins and Bailey concluded that "corporate planners in some firms reportedly have taken over, often virtually by default, certain specialized roles previously performed under the jurisdiction of marketing (p. viii)." As to the future, the researchers suggested that manufacturing firms would rely more on decentralization by acquiring autonomous businesses, staff reductions, more asset management, and financial control (p. viii).

The Raymond and Barksdale study, which is discussed next, investigated the impact of strategic planning in consumer goods, industrial goods, and service organizations. The intent of the study was to determine if similar changes noted in manufacturing firms would be found in other organizations.

Raymond and Barksdale Study of 1986

The purpose of the Raymond and Barksdale study was to explore the impact strategic planning had on corporate marketing and to determine anticipated changes in marketing and their effect on strategic planning (p. 43). The study included questions about the existence of corporate marketing departments and corporate strategic planning departments, the number of personnel in these departments (if applicable), and if there was movement toward a strategic planning and marketing management interface (43).

The researchers surveyed 500 randomly-selected companies from 51 product classifications in the *Standard Directory of Advertisers* (The Red Book). The following criteria were used to screen the sample: 1) have an identifiable Chief Executive Officer (CEO) and 2) be a single-line firm or the parent company of a multinational organization. The mail survey was pretested by executives who were selected through a judgmental sampling method (p. 43).

The 211 usable returned questionnaires indicated that 45% of the companies had corporate planning departments, but no corporate marketing department. About 9% had corporate marketing departments, but no corporate planning department. Corporate planning and corporate marketing departments were found in 27% of the responding companies and the remaining 19% had neither corporate planning nor corporate marketing departments (p. 44).

The Raymond and Barksdale findings in 1986 concurred with those of the Rich (1979) and Hopkins and Bailey (1984) studies. There was a significant decline in the number of companies with corporate marketing departments. Rich found no vice presidents of marketing reporting directly to CEOs and Hopkins and Bailey discovered that the number of corporate marketing executives was less than half the number of corporate planners. These researchers concluded that although this reduction appeared to be substantial, it did not mean that marketing had been de-emphasized or that marketing had become less important. In fact, marketing executives appeared to have considerable influence in new-product planning, but had relatively little input or responsibility for the development of strategic goals. Only four of the 211 companies mentioned having marketing executives determine strategic direction.

Consumer goods companies dominated the survey with 45% of their companies having corporate marketing departments compared to 30% for industrial products companies. No corporate marketing departments were found in 134 of 211 companies surveyed, but 17 companies indicated that they previously had one. Twelve of these companies were industrial goods companies.

Decentralization was the main reason that corporate marketing departments had been discontinued in 41% of the 17 companies while 29% stated ineffectiveness as the main reason. Corporate planning departments had been dropped from 18 of the 60 companies that responded as having no corporate planning departments. The majority of these companies were small industrial companies. The primary reasons for discontinuing corporate planning departments were ineffectiveness, transferring of responsibility, and staff reductions.

Raymond and Barksdale suggested future studies examining strategic planning/marketing management interface. Thus far, no studies have narrowly focused on these two entities. Instead, contemporary studies reviewed marketing success criteria and financial performance and attributed a company's success to marketing planning and practices.

Hooley, West, and Lynch Study of 1984 in the United Kingdom

The objective of this study was to identify current marketing practices and to isolate the most effective techniques, attitudes, and approaches. The overall purpose of the study was to provide a blueprint for marketing successes in the 1980s. Because the survey was administered when the country was recovering from an economic recession, several questions addressed economic recovery. Over 1800 senior marketing executives were questioned either by mailed questionnaire or by personal interview.

Hooley, West, and Lynch found that the best companies and the most successful managers have strong commitment to classic marketing principles, a significantly heightened sensitivity and responsiveness to environmental signals, organizational flexibility and adaptability, and increased marketing professionalism. Three market approaches were measured in the study: production orientation, sales orientation, and marketing orientation. A majority of the sample (over 60%) professed to hold a marketing orientation by placing major emphasis on prior analysis of market needs and adapting products to meet them, if necessary.

Webb Study of 1987

Webb (1987) describes his dissertation as the only study in the United States that tries to match marketing orientation with financial performance. This dissertation was the only one found in *Dissertation Abstracts International* (48[6], 1500a) that is similar to the proposed study.

The purpose of this study was to measure the relationship between profitability and marketing practices in 139 medium-sized commercial printing firms with 50-99 employees. The mail survey gathered information about trade association memberships, annual sales volume, advertising expenditures, and profitability before taxes. Webb designed a list of eighteen different marketing activities that respondents rated on a scale. Respondents were assigned an aggregate marketing score based on their ratings. Marketing scores were then statistically correlated with company profitability.

There was a weak correlation between marketing and profitability when calculating an overall score. Stronger correlations existed when activities were measured separately. These activities were measuring sales potential of territories before assigning personnel, surveying customer needs prior to making capital equipment expenditures, and being aware of trends in customer industries. All the financial data was self-reported.

Verhage and Waarts Study of 1988 in the Netherlands

The purpose of the Verhage and Waarts study was to define planning, select performance measures, and consider industrial effects as they pertain to improved performance based on marketing planning in the Netherlands. A mail survey was sent to marketing or sales departments in 440 Dutch companies randomly drawn from the 1983 Chamber of Commerce listing of over 3,500 firms in nine different industries, each firm having more than 100 employees.

The overall response rate was 31%. Respondents were from three groups of companies: food, textiles or clothing (29% of sample, 41% response rate); metal or machines (27% of sample, 36% response rate); and transportation, banking, or business services (45% of sample, 19% response rate).

Questions were asked to determine whether the company had a marketing or production orientation, a formal marketing department, how much and what type of marketing research was performed, and the extent of formal marketing planning and forecasting. The results show that 38% of the companies had a production orientation while 46% had a marketing orientation, and 16% had a sales orientation (a new category). These two orientations were identified by one question that had two forced-response categories. These categories were: "My company makes what it can sell" (marketing orientation) and "My company sells what it can make" (production orientation). There was no significant difference in orientation and performance among companies that marketed consumer goods, industrial goods, or services.

Embracing the marketing concept did not necessarily mean that each company had a marketing department, conducted marketing research, or had formal marketing planning with regard to its major competitors. Although 60% of the companies had separate marketing departments, this did not mean they embraced the marketing-orientation approach.

The findings, however, indicate that those companies with formal marketing departments had three times more sales than companies that did not have separate departments. Two-thirds of the companies with a marketing orientation reported obtaining better profit margins than competitors. Sales and profit data were self-reported by respondents. Respondents were asked to report their annual company sales and to report their company's profit by stating if profits were "better or not better" than their competitors'. Verhage and Waarts acknowledged the difficulty of measuring performance and recommended that future empirical research should attempt to solve this problem.

Summary

The studies discussed in the literature review verify the reduction or relocation of strategic marketing planning in many of the companies surveyed. Because the Rich study explored only one industry, the question remains as to whether or not the reduced role of marketing in forest-product companies was industry specific. Further research in other industries is needed to answer this question.

Although the Hopkins and Bailey study and the Raymond and Barksdale study provided many insights into changes taking place in American corporations in several industries, these researchers, including Rich, failed to study the financial impact a marketing orientation or a production orientation had on companies. The only studies to attempt to compare these two orientations with financial performance were administered outside the United States (Hooley, West and Lynch in the United Kingdom, and Verhage and Waarts in the Netherlands). (The Webb Study measured only marketing orientation and performance.) Both studies used two or three measures of self-reported financial performance which may not have been accurate.

Based on the foregoing studies, there is a need for to verify whether companies with a marketing orientation are more successful then those with a production orientation. This study attempted to measure financial performance of medium-sized banks with a marketing orientation compared to those medium-sized banks having a production orientation. The study overcame the problems inherent in the Hooley, West and Lynch study, and, in the Verhage and Waarts study, by concentrating on one specialty within one industry, identifying sampling elements by name, and using audited financial statements, not self-reported data. Individual bank ratios were found in the CD-ROM Financial Database, *COMPACT DISCLOSURE* (1990-8). The following section discusses the findings of the study.

FINDINGS OF THE STUDY

Five major areas were used to discriminate a marketing orientation from a production orientation in questionnaires sent to 200 banks in the Summer of 1998. These banks were listed by and under the domain of the Richmond Office of the Federal Reserve Bank for the Southeast Region of the United States. The Southeast Region encompasses banks in Maryland, Virginia, West Virginia, North Carolina, South Carolina, and Washington, D.C. Medium-sized banks with either a marketing or production orientation were identified by their responses on the *Company Orientation Scale* contained in the questionnaire. Medium-sized banks were identified from the Federal Reserve Southeast Region Bank Listing as having at least 100 million dollars in assets, but no more than 999 million dollars, to control for asset deviation.

Performance was measured by two financial indicators: Return on Equity (ROE) and Return on Assets (ROA) for banks meeting the screening criteria (publicly held and no merger or acquisition activity in the last twelve months). Two hundred surveys were sent and 65 were returned for a 32.5% return rate. After applying the screening criteria, 7.8% were eliminated for having recent bank mergers, 32.8% were eliminated for recent acquisitions, and 17.5% were eliminated for being privately held, yielding 28 banks.

Planning, research, profit, advertising, and sales were assessed to determine the member bank business orientation. The results of the previously discussed studies noted the strong correlation marketing had with the profitability of the firm in manufacturing industries. A similar conclusion was reached in this study of the service industry.

The two profitability ratios, Average Return on Equity and Average Return on Assets, were analyzed to determine if differences existed between banks responding favorably to five pairs of questions designed to determine either a marketing orientation and a production orientation. For instance, those bank officers responding affirmatively to one question in the pair had to respond negatively to the other question to validate their response. Invalidated responses were eliminated from the calculations.

A general review of the two profitability ratios show that Average Return on Equity is 10.49 and Average Return on Assets is 0.80 for all responding banks. The average ROE for medium-sized banks is fairly good, but the average ROA is extremely low and is probably attributable to currency devaluation in Asia, Brazil and Latin America.

Probably the most obvious indicator of the production orientation of banks is their response to the question about profits being the residual after costs. Over two-thirds (68.45%) of the banks answered more positively to this question. A t-test on Return on Equity had a p-value of 0.087, df=8. The statistical test verified that banks responding less positively (used profits as a marketing planning objective) to the question performed better than member banks that did not include profits as a major objective in their strategic planning. The average ROE was 12.53 and the average ROA was 0.65.

With the marketing concept, profit is considered a major objective in conjunction with satisfying customer needs well. It is not considered a residual, as in the production concept, and must be planned. Otherwise, the bank, or any other institution or industry, will satisfy its customers very well, but fail because it is not profitable.

Marketing research was used by over half (53.15%) of the banks to measure customers' reaction to their institutions' rather than used to determine customer needs and how to satisfy them. There was no significant difference in the profitability ratios of those banks using marketing research for either purpose. This finding conflicts with the strong correlation between marketing research and profitability found in the Webb Study of 1984.

There was no significant difference in financial ratios on the two advertising approaches listed in one pair of questions. One advertising approach addressed the needs-satisfying benefits of products and the other approach concentrated on product features and quality. Apparently, respondents had difficulty in distinguishing the differences between the two questions even though the instrument had been pre-tested.

The majority of responding banks agreed that their service representatives tried to match customer needs with the right type of account or service. The remaining banks agreed with the statement that they had the know-how to sell all banking services. There was a significant difference between the two groups using a t-test with a p-value of 0.0937, df=6, for ROE. It is apparent from this analysis that a good marketing match leads to greater profitability.

Though nearly all banks considered themselves customer-oriented while making plans, most banks considered thrift as a major objective in planning. (Thrift refers to establishing cost-cutting measures in lieu of satisfying customer expectations. This is a production orientation question.) Nearly three-fourths of the respondents answered affirmatively to the paired planning questions, thus invalidating both questions.

The means on ROA were all low and could not be utilized in this study. As previously mentioned, this phenomena may be due to the failure of the Asian economies and economies in other countries where banks had investments.

DISCUSSION

It is apparent from two significant measures on the questionnaire that responding banks that embrace the marketing concept perform better on at least one of the two financial indicators studied: Return On Equity. In the study, planning for profits as a marketing strategy proved to be more statistically significant than not planning and led to higher profits. Forlines (1991) determined that "pricing structures were not generic among banks" and that banks could perform better if "pricing and profitability goals were established by each individual financial institution based on the goals of the planning department and client availability (p. 68). In other words, Forline suggested that in order to maintain profitability goals, corporate strategic planners were applying marketing concepts.

Further research on bank profitability found some interesting results. In 1996, Action Systems surveyed 49 major banks and found that 79% were setting goals for product sales instead of customer profitability measures (Kutler, 1996, p. 2). Apparently, product sales were more revealing figures than individual customer wealth. Results of the current study show that banks that had sales representatives who matched customer needs with bank services rather than presenting general knowledge about banking services to customers proved to be more statistically significant. Falvo concludes in her 1992 thesis on *The Evolution of Bank Marketing* that there is still a need for training and developing marketing professionals (p. 72).

Hopkins and Bailey found the assignment of marketing decision-making to corporate planners in their 1984 study. To further document this marketing behavior, Forlines (1991) alludes to this finding in his dissertation when he states: "Qualifications for bankers in the planning role will require a combination of the same skills as private planning practitioners, accountants, brokers, and insurance representatives when addressing daily basic planning activities. However, the need for credit availability and debt management in a financial plan requires lending skills. Seasoned bankers with fundamental and technical credit experience related to the complex needs of the consumer markets will be a component in the financial plan (1991, p. 42)." A decade after the Raymond and Barksdale study (1986), the Marketing Council in the U.K. concluded from their study "that the most dynamic marketing departments come from companies which have strong leadership that have a marketing mind-set (and) ... poorly performing companies should search for strong leaders' (Lamons, 1996, p. 1)". Does this mean that corporate strategic planners are, in fact, marketers who can maintain profitability?

In the U.S., a different opinion was made at the 1996 annual meeting of the Bank Marketing Association. President Faye Cannon addressed her members by stating that marketers are "recognized and valued" as "drivers of the organization to peak performance ... We have become part of executive management teams, with responsibility and accountability (Kutler, 1996, p. 3)." Perhaps, U.S. banks have been slow to effectively utilize marketing and have recently put marketers in corporate offices.

Other more recent antidotal information is not as optimistic. Lamons (1998) strongly states that marketing planning departments are becoming uncommon because companies demand instant gratification. He further reiterates that managers are busy managing from day to day while faced with downsized, reorganized corporations. Falvo (1992) stated in her study that bankers did not visualize marketers as V.P.s and that banks were not measuring the effects of marketing plans.

Terry (1995) is more vocal about the role of bank marketing when he states that bank marketing is a "soft, support function" and ... "often a fringe player in the senior management structure of most U.S. Banks (with) a relatively small strategic planning role (p. 85). Terry suggests that this is unfortunate because "marketers are often strategic thinkers who see the world a bit differently than many traditional bankers. Frankly, this difference is an organizational strength which is too often left untapped (p. 82)."

CONCLUSION

Though the results of this study were inconclusive, recent anidotal information presented suggest that marketing is directing corporate banking strategy. In fact, Falvo (1992) states that banks hired CMEs from consumer goods companies after deregulation in order to survive. It appears that an integrated marketing strategy has taken hold in corporate banking though it may not be in industrial and consumer goods companies (as previously-mentioned studies verified). Because the banking industry lagged in applying marketing concepts until deregulation, future studies should try to verify the strength of the correlation between a marketing orientation with a bank's profitability.

Because there is turbulence in the banking industry with mergers/acquisitions and international financial crises that are unprecedented, it may be difficult to replicate this study. In a few years there may be only a few large banks in America with only a few independent banks. Functioning in that environment may place banking in an oligopolistic situation where it can operate in a production orientation.

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