

## 2006 STRATEGIC BUSINESS PERFORMANCE STUDY

### Objectives and Research Procedures

The objectives of the current study:

- To continue the multi-year study on a company being focused on the marketplace and its customers and the impact it has on performance.
- To introduce additional issues that may support a company's market focus.
- To provide benchmarks so that firms can be more profitable by identifying areas that need improvement.
- To continue to position M3 Planning as a thought leader in market-focused strategic planning through longitudinal research.

### Research Method

The survey was designed as exploratory research to collect primary data using a structured design. Formal statistical procedures were employed to analyze the data. Such procedures included exploratory factor analysis, reliability analysis, and frequency analysis. The original study employed structural equation modeling to develop an understanding of the three core elements of market focus – gathering, communicating and responding to marketplace information.

Since this has been a continuing study, only limited pre-survey research work was needed. Through open-ended interviews with 5 business people and a review of the literature on market orientation and strategy, six additional questions were added to the current study. The additional questions were used to determine if additional factors may be affecting a firm's market focus.

### Survey Instrument

The first section, which is the core of the instrument, is based on the Market Orientation (marketing concept) work of Kohli & Jaworski.<sup>i</sup> They developed and extensively tested 20 survey questions that capture a firm's market orientation. These questions have been tested throughout the world. The complete instrument is attached to this report.

The second section, Consequences, is composed of six questions that capture an employee's response to a market-oriented company. In the third section are six Marketplace Issue questions. In the fourth section firm Performance questions are based upon the structure of the Balanced Scorecard as developed by Kaplan & Norton.<sup>ii</sup> In this section there are twelve questions that represent the four perspectives of the Scorecard. In total there are 44 closed-end questions all with a seven point response category Likert scale. Additionally there are eight demographic questions. The overall survey is very similar to previous ones. Go to [www.m3planning.com/survey.pdf](http://www.m3planning.com/survey.pdf) for the complete instrument.

### Time Frame

Data were gathered from October 2005 to June 2006.

## Respondents

Responses were solicited from all types of businesses, primarily for-profit, in the state of Nevada through the assistance of University of Nevada, Reno marketing students.

- Eighteen different industries were represented. The top three were Consulting, Professional & Business services; Food & Beverage services, Entertainment; and Retail, Consumer services.
- 280 usable responses (the 2003/2004 had 812 usable responses and 2002 study had 209 usable responses.)
- Eighty-eight percent of the respondents were from Nevada.
- 12% of the respondents were from eleven different states.
- Company size is best described by the number of employees: they ranged from 1 employee to 190,000 employees; the mean number of employees was 3,418; the mode was 10 employees.

## Strengths and Limitations

The primary study limitation relates to the ability to generalize the results to all business types. In order to accomplish this, a random sample of the entire business population would be necessary. This would be cost prohibitive and not feasible. But due to the sample size of 280, most statements from the data are statistically reliable at the 95% confidence level.

## Big Picture: What is happening to Market Focus?

A main purpose of this study was to continue a longitudinal study regarding the market focus of companies. In other words, are firms employing more understanding of the marketplace and customers in their decision-making process? Are firms becoming less internally-focused and more externally-focused? The broad answer to this is – Yes. The mean Market Orientation score has increased 6% from the original benchmark study, but only slightly (less than 1%) since the last study. However to be noted is the range, or the bottom of the range. Previously firms had scored as low as 32 (this is a composite score of the 20 Kohli & Jaworski questions.) in the past two studies. But the current low composite score is only 40 or a 25% improvement.

Figure 1

Year	Number in study	Market Focus mean	Market Focus Range	Net Profit mean*	Sales Volume mean*
2005/2006	280	108.1	40 – 140	3.35	5.11
2003/2004	812	107.1	32 – 140	5.16	5.23
2002	209	101.9	32 – 137	4.87	?

\*These means are based upon the questions - The firm's net profit has: and The firm's sales volume has? The available responses were Declined Substantially, Declined, Declined Slightly, Without Change, Increased Slightly, Increased, and Increased Substantially.

## Big Picture: What other issues may have an impact?

A second purpose was to explore if other factors or issues may have some impact on firm performance. This was accomplished by analyzing responses to two questions regarding management's involvement in directing a company's interaction with the marketplace. Responses were recorded on a 7 point Likert scale with 1 being Low and a 7 response as High.

For the first question, "the level of top management commitment to execute strategic planning," the data file was split into those responding with a 6 or 7 (a high commitment) and those with 5 and below (an average or low commitment). Various other questions were queried. The results are in Figure 2 below. Responses: 6 and 7 = 126 firms; 5 and below = 152.

**Figure 2**

Question	High Commitment*	Average to Low Commitment*	% Difference**
Sales volume	5.46	4.86	12.3
Net profit	3.58	3.22	11.1
Cashflow from operations	5.96	5.72	4.2
Market Focus composite	113.89	103.7	9.8

\*The numbers presented are the means.

\*\*Calculated with Average to Low as denominator.

Thus across the board, a solid commitment to strategic planning definitely impacts performance. Comment – these percentages are in addition or above regular operations

To validate the conclusions from the previous question, a second question was similarly analyzed. For the question, "the extent of our company's dedication to be proactive in an attempt to influence events in the marketplace instead of only responding is," the data file was split into those responding with a 6 or 7 (a high commitment) and those with 5 and below (an average or low commitment). Various other questions were queried. The results are in Figure 3 below.

Responses: 6 and 7 = 122 & responses: 5 and below = 157.

**Figure 3**

Question	High Commitment*	Average to Low Commitment*	% Difference**
Sales volume	5.47	4.85	12.8
Net profit	3.45	3.33	3.6
Cashflow from operations	6.16	5.58	10.4
Market Focus composite	115.6	102.5	13.3

\*The numbers presented are the means.

\*\*Calculated with Average to Low as denominator.

## Conclusions

Across the board, a commitment to being proactive (strategically planning) definitely impacts a company's performance.

- Top-line: firms whose top management had a high commitment reported 12 % greater increase in sales volume than did those with a lower commitment.
- Bottom-line: firms whose top management had a high commitment reported 11% better net income than did those with lower commitment.

<sup>i</sup> Jaworski, Bernard J. and Ajay K. Kohli (1993), "Market Orientation: Antecedents and Consequences," *Journal of Marketing*, vol. 57 (July), 53-70. Kohli, Ajay K. and Bernard J. Jaworski (1990), "Market Orientation: The Construct, Research Propositions, and Managerial Implications," *Journal of Marketing*, vol. 54, April), 1-18.

<sup>ii</sup> Kaplan, Robert S. and David P. Norton (1992), "The Balanced Scorecard-Measures That Drive Performance," *Harvard Business Review*, v70n1 January-February 71-79.