



**SWP 25/87 MARKETING EFFECTIVENESS AND ITS RELATIONSHIP
TO CUSTOMER CLOSENESS AND MARKET
ORIENTATION: THE NEW ZEALAND EXPERIENCE**

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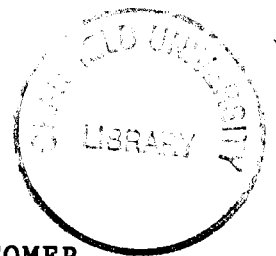
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MARKETING EFFECTIVENESS AND ITS RELATIONSHIP TO CUSTOMER
CLOSENESS, CORPORATE VALUES AND MARKET ORIENTATION: THE NEW
ZEALAND EXPERIENCE

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This study reports the results from New Zealand senior managers in a four nation study - United Kingdom, United States, Australia and New Zealand - with regard to the relationship between marketing effectiveness, as defined by Kotler [1977], and customer closeness, corporate values and market orientation, as defined by Peters and Waterman [1982].

For three decades marketing scholars have professed that the predominant business philosophy should be based upon a consumer orientation. Indeed, since its inception, this concept of a market orientation has become the very foundation and purpose for the study and practice of marketing. However, despite widespread support for the principles dictated by the concept, its pragmatic value has been constantly criticised and challenged. Two issues are generally debated - the alleged failure to emphasise societal

The authors would like to thank Andrew Myers, Cranfield School of Management, for his assistance in the preparation of this paper.

concerns, and the shortcomings of operationalising the philosophy and implementing the strategies prescribed.

The environmental turbulence of the 1960s and 1970s which was reflected in neglected social services, political unrest, social activism, and a level of social entitlement funded by national deficit financing, ignited a societal movement which challenged marketers to emphasise humanistic concerns [Bell and Emory 1971; Dawson 1969, 1980; Feldman 1971; Kotler 1972]. Recently, however, this criticism has subsided and has given way to a further threat to the marketing concept's superiority, a challenge directly attacking the implementation of the concept [Sachs and Benson 1978; Bennet and Cooper 1979, 1980; Hayes and Abernathy 1980; Riesz 1980]. These critics contend that business has failed to respond to the contemporary competitive challenges facing them. The result has been a decline in competitiveness, a decline which has been traced to an over-emphasis on market orientation. Indeed, Bennet and Cooper [1979] maintain that strict adherence to this orientation has created a lack of innovative spirit amongst large US corporations. As a result, new product development has been replaced by an concentration upon the short-run strategies of modifying existing products, and upon other marketing mix variables. Conversely, they credit the success of the Japanese in American markets to their delivering "better value" in their products, to a philosophy which is "based on the concept of product value, and providing superior products at competitive costs".

Implementing the Marketing Concept

Whilst we believe that the criticisms outlined above are important, they nevertheless can be considered indicative of a greater problem facing the marketing concept - that of its implementation. Whilst the concept appears intuitively simple, developing the skills necessary to implement it presents a formidable managerial challenge. Indeed, many marketing leaders question the number of organisations who have successfully implemented the philosophy. Whereas McNamara [1972] noted that a movement towards its adoption and implementation was evident, five years later, Kotler's [1977] assessment was not encouraging. He concluded "of the Fortune 500 corporations, it seems to me that only a handful really understand and practice sophisticated marketing". In two later and separate surveys conducted by Greyser [1980], and by Webster [1981], executives indicated that developing and encouraging a company-wide marketing orientation was a major challenge facing them in the future.

Despite these apparent problems, failure to implement the philosophy has not been attributed to an inherent weakness in the concept itself but rather to organisational barriers and constraints which inhibit the operationalisation of consumer oriented strategies [Barksdale and Darden 1971]. These structural constraints include both marketing and organisational functions in addition to their associated policies, programmes, and systems. Stampfl [1983] extends this direction to include the

production technology utilised by many firms; the goal structure of the organisation; and an inadequate organisational structure.

Identification of the problems of implementing the marketing concept has therefore focussed upon what is essentially inanimate - structure, systems and strategy. Beyond this, however, lies a more fundamental and animate issue, that of the human dimension.

The Corporate State of Mind: The Human Constraint

Relatively little is known about the people who make and implement marketing strategies. Regardless of the procedures, the systems, or the available information, it is people who make decisions and implement strategies. The human element represents a vital determinant of success or failure of a marketing programme. Indeed, early advocates of the marketing concept insisted that marketing success depended largely on the human element as reflected in the organisation's "state of mind" [Felton 1959, 1965]. Felton proposed that this "state of mind" should begin with a customer orientation which filters through all levels in the organisation and that people, rather than strategies, are the ultimate determinants of success. Creating the proper environment is the key element in maximising productivity [Miller 1983]. Nevertheless, this pre-requisite to marketing success has received cursory attention only from marketing researchers [Bonoma 1984], despite the caveat issued by Buzzell, Gale and Sultan [1975] who, drawing from their PIMS database, warned that the characteristics and beliefs of top

management were a major explanatory factor in determining financial variability.

The growing need to examine marketing management's human character parallels the growing interest in corporate culture, an interest stimulated by the poor performance of British and American industry in times of economic turbulence, and by the apparent success of the Japanese management style [Wilkins 1983]. Similar to the marketing concept, the concept of an identifiable corporate culture has received strong support from both academics and practitioners [Business Week 1980, 1983; Schwartz and Davis 1981; Peters and Waterman 1982; Tichy 1982; Uttal 1983; Fombrun 1983; Miller 1983; Parasuraman and Deshpande 1984; Pascale 1984; Wilkins 1984]. This concept represents the organisation's value systems and frame of reference, which in turn control behaviour and form the organisational identity. It influences the actions of employees towards all 'stakeholders' in the firm - themselves, customers, suppliers and competitors [Business Week 1980].

The hypothesis that corporate culture is correlated with the implementation of the marketing concept such that a particular culture will produce marketing effective firms has already been suggested by both Parasuraman and Desphande [1984], and Enis and Mills [1984]. Moreover, empirical evidence to date [Business Week 1980a, 1980b, 1983; Peters and Waterman 1982; Uttel 1983] would support the need for further studies of these relationships.

PURPOSE OF THE STUDY

Traditionally, marketing research has focussed upon strategic formulation rather than upon its implementation. As such, academic interest in the issues relating to organisational structures, behavioural aspects, and performance measurement appears to have been minimal [Parasuraman and Deshpande 1984], although Bonoma [1984] has recently emphasised that increased attention should be paid to the implementation of marketing strategies.

This study is therefore grounded in the investigation of potential barriers to implementation by considering the dimensions of the human component and their relationship to the definition of the marketing concept defined as the level of corporate marketing effectiveness.

The analysis concentrates primarily upon the views presented by Peters and Waterman [1982] of the common characteristics of America's "excellent" companies. Notwithstanding the criticisms from the academic world as to the study's methodological rigour, its acceptance by the corporate world has been exceptional: results have been used by many corporations as the basis for prescriptive plans for implementation of the strategic process.

Three characteristics identified by Peters and Waterman are relevant to marketing strategists and, thus, to this study.

1. The importance of "consumer closeness" - a service orientation, an innovative spirit, an obsession with quality, and a view of the organisation from the perspective of the customer.
2. The need for a distinct and identifiable set of corporate values - the organizational culture - represented by a belief in "being the best", and the importance of people.
3. An external, or market oriented, focus as distinct from an internal, or company oriented, focus. This broad philosophy emphasises the importance of the marketplace as a key determinant for corporate action.

Building upon these key issues, the major hypothesis of this study is that:

Those companies demonstrating superior marketing effectiveness will also be those companies which can be characterised as close to their customers, which show an identifiable set of corporate values, and have an external focus.

METHODOLOGY

Data Collected: A self-administered questionnaire was designed, and a pilot study conducted in the summer of 1984 on 54 firms in the geographic triangle of Northern Indiana, Southern Michigan, and Eastern Illinois in the United States. Three basic issues were addressed - marketing effectiveness, customer closeness [as defined by Peters and Waterman, 1982), and corporate culture.

Results of this study are reported in Dunn, Norburn and Birley [1985). The revised questionnaire, incorporating questions regarding market orientation, was then mailed to senior executives of 650 randomly selected manufacturing firms in the same geographic area and to 500 firms in the United Kingdom. Useable replies were received from 177 US firms and 104 UK firms, giving response rates of 27% and 21% respectively. Results of these studies are reported in Dunn, Birley and Norburn [1987), and Norburn, Birley and Dunn [1987). The survey has also recently been completed in Australia. This paper reports the results from the New Zealand experiment. 150 questionnaires were issued to the members of the New Zealand Business Planning Society in the Autumn of 1986. 64 useable replies were received, giving a response rate of

Scales and Measurements: Criteria as to the level of marketing effectiveness were measured using fifteen three point scales developed by Kotler [1977]. These are listed in Figure 1. The items were designed to audit marketing effectiveness in five essential areas - customer philosophy, integrated marketing organisation, marketing information, strategic orientation, and operational efficiency. Respondents were asked to indicate, on a five point scale, the extent to which they felt that each condition existed within their organisation.

Insert Figure 1 About Here

Eight statements were constructed to measure customer closeness, and seven to highlight organizational or corporate values. These statements, shown in Figure 2, were drawn from the results of Peters and Waterman. In each case, respondents were asked to indicate, on a five point and a seven point scale respectively, the extent to which these values existed within their organization. To determine the market orientation of the firm, six statements were developed [see Figure 2], three each for external and internal orientation, and respondents were asked to indicate on a five point scale the extent to which the statements represented their organization.

Insert Figure 2 About Here

ANALYSIS AND DISCUSSION

To test their propriety the four scales of marketing effectiveness, customer closeness, corporate values and market orientation were each subjected to principal component analysis using an orthogonal rotation. Factors which had an eigenvalue greater than 1.0 were extracted for further analysis. Four significant factors emerged for marketing effectiveness, three for customer closeness, one for corporate values, and two for market orientation. Aggregate scores were then computed for each of the factors identified by summing the item responses, and a reliability coefficient calculated for each sub-scale. The factor MOB, on the market orientation scale [see table 4 below] failed

to satisfy the reliability criterion and so was omitted from further analysis; all other sub-scales scored an acceptable reliability estimate.

Marketing Effectiveness: Four factors were identified, explaining 65.1% of the total variance [See Table 1).

Insert Table 1 About Here

These factors do not fall at all into the five sub-scales defined by Kotler [See Figure 1), although all of the items achieve sufficient factor loadings to be included in the subsequent analysis. Factor 1 includes two elements which Kotler terms customer philosophy plus items for product opportunities and management flexibility, all of which reflect a product/market orientation. We have termed factor 2 strategic marketing orientation. Factor 3 includes two of the elements which comprise Kotler's marketing organisation and we have, therefore, chosen to retain this term. Equally, factor 4 has retains the term operational efficiency.

Customer Closeness: Three factors emerged from this analysis, accounting for 72.5% of the variance [see table 2]. Factor 1 includes those items which focus upon quality and value; factor 2 is concerned with customer service; and factor 3 customer feedback. The item concerned with innovation and change does not score on any of the factors.

Insert Table 2 About Here

Corporate Values: Only one factor emerged from this analysis accounting for 57.3% of the total variance [see table 3]. All the items scored and so the term **corporate beliefs** has been used to describe the factor.

Insert Table 3 About Here

Market Orientation: Two factors emerged from the market orientation scales accounting for 55.1% of the total variance [see table 4]. The first factor, termed **product concern**, focusses upon the need constantly to supply good products for the customer. The second factor describes a need for a **customer orientation**. However, this latter factor does not score an acceptable reliability coefficient and so is excluded from any further analysis.

Insert Table 4 About Here

Regression Analysis: Based upon the refinements of each scale described above, the composite scores provided the basis for further analysis. Pearson correlation coefficients were computed

to examine the inter-relationship between the three sets of scales [see table 5].

Insert Table 5 About Here

It is clear from an examination of table 5 that there is substantial evidence that the sub-scales are inter-correlated. Thus, the hypothesis of this paper that those firms which demonstrate high levels of marketing effectiveness, as defined by the four factors identified in this study, are also those which can be characterised as close to customers, which show an identifiable set of corporate values, and a clear market orientation.

Following from the analysis above, the question remains as to which of the Peters and Waterman factors listed are the best predictors of a marketing effective firm as defined in this research. No guidance is obtained from table 5 since all the factors except CCC [customer feedback] are highly correlated and so it may not be appropriate to use the four independent variables simultaneously to predict marketing effectiveness. Mindful of this, the data was analysed further using stepwise multiple regression. Four analyses were conducted using the four marketing effectiveness scales as the dependent variable; the five sub-scales of quality and value, customer service, customer feedback, corporate beliefs and product concern were used as independent variables [see table 6].

Insert Table 6 About Here

Results from this analysis justified our caution since the two customer closeness factors of customer service and customer feedback failed to score as predictors of marketing effectiveness. However, the Peters and Waterman factors of quality and value and product concern emerge as significant predictors of the factor which we have termed product/market orientation from the Kotler scales; corporate beliefs emerges as a significant predictor of a strategic marketing orientation; and product concern and corporate beliefs as significant predictors of operational efficiency. These three results are intuitively acceptable since they would, indeed, appear to follow a broadly similar pattern. However, the third result whereby quality and value emerges as a significant predictor of marketing organization is more difficult to interpret.

CONCLUSION

This study set out to establish whether those New Zealand companies demonstrating a superior marketing effectiveness would also be characterised as being close to their customers, possess an identifiable set of corporate values, and have an external focus. Results from the analysis clearly support this association. Beyond this, however, the factors which emerge as the best predictors of Kotler's marketing effectiveness within

the New Zealand environment are essentially animate in all their aspects. They describe a condition of pre-occupation with quality, with value and with customer service - an outward orientation demonstrating pride in the quality of the product and in the paramount value of the individual to effect this. The emphasis of those academics upon the importance of the organisation's "state of mind" [Felton, 1959, 1965; Buzzell, Gale and Sultan 1975; Miller 1983] and upon an identifiable corporate culture [Peters and Waterman 1982; Tichy 1982; Uttal 1983; Fombrun 1983; Miller 1983; Parasuraman and Deshpande 1984; Pascale 1984; Wilkins 1984] is thus supported.

Just as Fiedler [1965] warned us to "engineer the job to fit the manager" rather than the other way round, concentration upon human values would appear just as apposite two decades later. To operationalise the Marketing Concept, it will pay for top management to foster and emphasise this focus in order to improve the likelihood of achieving marketing effectiveness.

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FIGURE 1: MARKETING EFFECTIVENESS

Customer Philosophy

- ME1. Does management recognise the importance of designing or providing products or services which serve the needs and wants of chosen markets?
- ME2. Does management take into account suppliers, competitors, customers, and its operating environment in planning its organization?
- ME3. Does management develop different strategies for different segments of the market?

Marketing Organization

- ME4. Is there marketing integration and control of major marketing functions [i.e. advertising, product development, marketing research, and personal selling]?
- ME5. Do employees responsible for marketing activities work well with employees in other functional areas?
- ME6. How well organised is the process for assessing new product or service opportunities?

Marketing Information

- ME7. When was the last systematic study of the market-place conducted?
- ME8. How well does management know the sales potential and profitability of different market segments?
- ME9. What effort is expended to measure the cost-effectiveness of different marketing expenditures?

Strategic Orientation

- ME10. What is the extent of formal marketing planning?
- ME11. What is the quality of the current organization strategy?
- ME12. What is the extent of contingency planning?

Operational Efficiency

- ME13. How well is marketing thinking communicated and implemented down the line?
 - ME14. Is management doing an effective job with the marketing resource?
 - ME15. Does management react quickly and efficiently to on-the-spot marketing changes?
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FIGURE 2: CUSTOMER CLOSENESS, CORPORATE VALUES AND MARKET ORIENTATION

Customer Closeness [CC]

- CC1 - My company thinks of itself of providing a service rather than selling a product.
- CC2 - Employees of my company view the business through the eyes of their customers.
- CC3 - My company feels the key to attracting and holding customers is to keep improving product quality.
- CC4 - Employees of my company would take a quality complaint as a personal insult.
- CC5 - My company constantly seeks to improve its total offering defined in terms of more value for their customers.
- CC6 - An important objective of my company is to provide a reliable high value-added service.
- CC7 - My company encourages feedback from its customers.
- CC8 - My company feels that innovation and change come directly from the customer.

Corporate Values [CV]

- CV1 - A belief in being the "best"
- CV2 - A belief in the importance of the details of the execution, the nuts and bolts of doing the job well.
- CV3 - A belief in the importance of people as individuals.
- CV4 - A belief in superior quality and service.
- CV5 - A belief that most members of the organization should be innovators.
- CV6 - A belief in the importance of informality to enhance communication.
- CV7 - Explicit belief in and recognition of the importance of economic growth and profits.

Market Orientation [MO]

- MO1 - Customers will probably buy again, and even if they don't, there are many more customers.
 - MO2 - The organization concentrates its attention on the task of producing good products that are fairly priced.
 - MO3 - The main task of the organization is to satisfy the needs and wants of its customers.
 - MO4 - Customers will not normally buy enough on their own.
 - MO5 - The organization constantly searches for better products defined in terms of appeal and benefit to customers.
 - MO6 - The main task of the organization is to get sufficient sales from its customers.
-

TABLE 1

Factor Structure of Marketing Effectiveness Items

Items	FACTOR 1:MEA Product/Market Orientation	FACTOR 2:MEB Strategic Market Orientation	FACTOR 3:MEC Marketing Organization	FACTOR 4:MED Operational Efficiency
ME1	0.70804	-	-	-
ME2	0.78679	-	-	-
ME3	-	-	0.74064	-
ME4	-	-	0.77839	-
ME5	-	-	0.75537	-
ME6	0.59399	-	-	-
ME7	-	-	-	-
ME8	-	0.77711	-	-
ME9	-	0.72382	-	-
ME10	-	0.76592	-	-
ME11	-	0.63661	-	-
ME12	-	-	-	0.59380
ME13	-	-	-	0.70593
ME14	-	-	-	0.75460
ME15	0.5535	-	-	-
Reliability Estimates:				
Cronbach	0.7501	0.8322	0.7905	0.5581
Eigenvalue	6.2846	1.3239	1.0973	1.0579
% Variance	41.9	8.8	7.3	7.1

TABLE 2
Factor Structure of Customer Closeness Items

Items	FACTOR 1:CCA Quality and Value	FACTOR 2:CCB Customer Service	FACTOR 3:CCC Customer Feedback
CC1	-	0.85236	-
CC2	-	0.87558	-
CC3	0.52004	0.50140	-
CC4	0.77960	-	-
CC5	0.80220	-	-
CC6	0.61863	-	-
CC7	-	-	0.90953
CC8	-	-	-
Reliability Estimates: Cronbach	0.7277	0.7158	-
Eigenvalue	2.8917	1.1126	1.0745
% Variance	41.3	15.9	15.3

TABLE 3

Factor Structure of Corporate Value Items

Items	FACTOR 1:CVA Corporate Beliefs
CV1	0.78132
CV2	0.61104
CV3	0.77249
CV4	0.82013
CV5	0.78527
CV6	0.81532
CV7	0.703
Reliability Estimates: Cronbach	0.8736
Eigenvalue	4.0135
% Variance	57.3

TABLE 4

Factor Structure of Market Orientations Items

Items	FACTOR 1:MOA Product Concern	FACTOR 2:MOB Customer Orientation
M01	-	0.61956
M02	0.50522	-
M03	0.85769	-
M04	-	0.51069
M05	0.86111	-
M06	-	0.69127
Reliability Estimates: Cronbach	0.6759	0.2788
Eigenvalue	1.9285	1.3789
% Variance	32.1	23.0

TABLE 5

Correlation Coefficients Among Marketing Effectiveness, Customer Closeness,
Market Orientation and Corporate Values Scales

	MEA	MEB	MEC	MED	CCA	CCB	CCC	MOA	CVA
MEA	-								
MEB	.5812**	-							
MEC	.5785**	.5564**	-						
MED	.5347*	.4846**	.4291**	-					
CCA	.6819**	.5276**	.4909**	.4333**	-				
CCB	.4996**	.3482**	.1682	.2996**	.6205**	-			
CCC	.1137	.0813**	.0234	-.0206	.1982	.1813	-		
MOA	.6540**	.4031**	.3430**	.4922**	.6441**	.4623**	.2632**	-	
CVA	.6430**	.5842**	.4402**	.4722**	.7359**	.6882**	.2667*	.5771**	-

* Significant at 1% SL

** Significant at 0.1% SL

TABLE 6
Stepwise Regression Analysis

	<u>Marketing Effectiveness - Dependent Variable</u>			
	MEA Product/ Market Orientn.	MEB Strategic Market Orientn.	MEC Marketing Organizn.	MED Operational Efficiency
<u>Standardised Regression Coefficients</u>				
CCA: Quality and Value	0.5068	-	0.4730	-
CVA Corporate Beliefs	-	0.3269	-	0.17
MOA Product Concern	0.3700	-	-	0.301
Constant	0.8917	4.8722	3.5771	2.9931
Adjusted r	0.5164	0.3225	0.2196	0.2582
<u>F-Value</u>	37.8378	34.3185	20.7030	12.8329
<u>Significance</u>	0.0000	0.0000	0.0000	0.0000