MEASURING MARKETING PERFORMANCE: A CRITIQUE OF EMPIRICAL LITERATURE

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Track: Pricing and Financial Issues in Marketing

Abstract

This paper reviews 46 empirical studies which have assessed performance measurement in marketing. The paper reports on two highly relevant topics in regard to performance measurement: (1) subjective and objective measurement; and (2) financial and non-financial performance measures. Furthermore, the paper provides a tabulated summary of a comprehensive literature review of the types of performance measures utilised in recent literature. Firstly, it was found that there seems to be agreement about the use of a subjective measurement perspective as an acceptable means of measuring performance, and that this is the preferred means of measuring performance by researchers. Secondly, the literature review identified that businesses are no longer defining performance only in terms of the traditional financial measures – they are adopting new frameworks and methodologies. However, this change is not as prominent as might be thought, as financial measures still predominate in research results. Furthermore, this review of performance measures also identified that current measurement selection by researchers is somewhat arbitrary rather than scientific, which is not assisting in the development of a "general performance measure".

Introduction

Measuring performance has been a central issue in marketing and remains a vital concern for a large majority of organisations (Morgan, Clark & Gooner 2002). Managers and academics have both been drawn to the topic with an urgency and scope previously unprecedented (Clark 1999). The Marketing Science Institutes research priorities for 2002-2004 confirmed this, with "Assessing Marketing Productivity and Marketing Metrics" voted as the highest priority topic for academic study.

Clark (1999) attributed this interest in measuring performance to the convergence of four trends: Firstly, after a decade of "downsizing", major corporations were reaching the point of diminishing returns which had led to a refocusing on marketing, as a driver of future profit and growth (Sheth & Sisodia 1995). Secondly, there has been increasing demand for information related to marketing, which traditionally has been poorly reported in firm financial statements. Thirdly, measures of business performance such as the Balanced Scorecard (Kaplan & Norton 1992) have attracted attention to the issue of which marketing measures should be included in the overall assessment of business performance. Finally, marketing managers have become frustrated with traditional performance measures that they believe undervalue what they do.

Through a comprehensive and critical review of the literature, several unanswered issues have been identified that drive the discussion in this paper, including: (1) to what extent is it acceptable to use subjective performance measures, and (2) what is the optimal balance in the use by organisations and academics of financial and non-financial measures? Finally, performance measurement trends are summarised, and commentary is provided on an appropriate research agenda.

The Notion of a Performance Measure

Wheelen and Hunger (2002, p. 243) defined performance simply as "… the end result of activity." At one level, it may be as simple and mundane as this definition, although at another level the notion of a general measure of performance is both intriguing yet continually disappointing (Bonoma & Clark 1988). Business performance measurement is currently receiving very active investigation from both practitioners and academics, to the extent that new reports and articles on the topic have been appearing at a rate of one every five hours of every working day since 1994, with a search of the World Wide Web revealing over 170,000 references (Neely 1998).

Initial interest in, and conceptual development of, marketing performance measurement was prominent in the 1960s (e.g., Sevin 1965; Feder 1965). Since then, numerous empirical and conceptual studies have examined the concept. Clark (1999, p. 712) stated that "performance history suggests that marketing performance measures have moved in three consistent directions over the years: first, from financial to non-financial output measures; second, from output to input measures; and third, from unidimensional to multidimensional measures." Nevertheless, the assessment of performance remains an important but elusive concept. It is important because consensual measures of performance would promote scholarly investigation, and clarify managerial decisions (Bonoma & Clark 1988). It is elusive because marketers have continually looked unsuccessfully for clear, present, and reliable signals of performance by which marketing merit could be judged (Bonoma & Clark 1988). While much work has gone into researching the performance marketing equation (refer to Bonoma & Clark 1988; Clark 1999), achieving a coherent view of the performance measures of marketing has remained a difficult and generally unrewarding business. "Indeed, perhaps no other concept in marketing's short history has proven as stubbornly resistant to conceptualisation, definition, or application" (Bonama & Clark 1988, p. 1).

Subjective versus Objective Measures

Although performance as a concept can have a variety of meanings, it is broadly viewed from two perspectives in the literature. Firstly, there is the "subjective" (or the so-called and inherently undesirably and inappropriately expressed "soft") concept which is primarily concerned with the performance of firms relative to their own expectation or relative to the competition. The second method is the "objective" (or equally poorly expressed "hard") concept which is based on more, seemingly "absolute" measures of performance (Appiah-Adu 1998).

Arguably, subjective performance measures can be used because: (1) Objective (i.e., certifiable by a third-party) relative performance measures are virtually impossible to obtain at the business unit level due to the issues of confidentiality and/or sensitivity (e.g., Chang & Chen 1998; Matsuno, Mentzer & Ozsomer 2002); (2) Studies that have adopted both approaches have reported a strong association between objective and subjective measures of performance (e.g., Venkatraman & Ramanujam 1987; Dawes 1999 – see too, Dawes for other studies which support the above association); (3) The usage of objective market-based measures is only as reliable as the product-market definitions which underlie them (Rossiter & Percy 1987, cited in Ngai & Ellis 1998); (4) Subjective measures may be more appropriate than objective measures for comparing profit performance in cross-industry studies as managers can take the relative performance of their industry into account when providing a response (Dawes 1999); (5) Objective performance measures such as “growth” may not accurately indicate the underlying financial health of a company (Dawes 1999). Generally, relying on subjective measures has involved soliciting managers for their own performance impressions, recognising that such people ideally should have intimate knowledge of their firms’ place in the market.

Consequently, a review was conducted of 46 articles (see the Commonly Utilised Measures section for full details) involving relevant empirical studies to assess whether objective, subjective, or a combination of the two methods were being applied in research studies when measuring performance.

Table 1: Classification and Frequency of Performance Perspectives

Method	**6 Frequency**	**Percentage**
Subjective	29	63
Subjective and Objective	13	28
Objective	4	9
TOTAL	**46**	**100**

Seemingly, the results in Table 1 indicate that researchers prefer to use subjective measures when measuring performance as opposed to objective measures. However, prospective researchers should note that subjective measures also pose certain problems: (a) reference points against which performance is evaluated are not controllable, and (b) measurement information cannot be restricted to only secondary sources (Katsikeas, Leonidou & Morgan 2000).

Financial versus Non-financial Performance Measures

Businesses are tending to rely less on financial measures (which are based on Accounting Standards) such as, profit, return on investment, and return on assets, alone to assess overall corporate performance (Wheelen & Hunger 2002). Measures that focus solely on financial performance are seen as less appropriate to deal with the issues which confront organisations now (Ahn 2001; Ambler 2000; Ittner & Larcker 1998; Kaplan & Norton 1996). “Sole reliance on financial measures of performance does not arguably reflect the importance of current resource decisions for future financial performance. Though some firms recognised the importance of non-financial performance measures many years ago (e.g., General Electric in the 1950s), growing international competition and the rise of the TQM movement have widened the appeal of non-financial performance measures” (Malina & Selto 2001, p. 48).

Without doubt, the strongest measurement trend in the 1990s was a move by a variety of industries from just measuring the narrow success of products to the additional use of complementary non-financial measures oriented around customer value (Clark 2001). Survey data gathered from a variety of sources, and covering both the US and Europe, suggest major changes, with 40-60 per cent of firms having recently re-engineered their performance measurement systems (Neely, Adams & Kennerley 2002).

Nevertheless, in many corporate environments where the predominant view is the "bottom line", financial measures remain the fundamental management tool. Luft & Shields (2002, cited in Maines et al. 2002) argued that this type of corporate behaviour encourages management to take many actions which focus on the annual or short term at the expense of investing for the long term (see Ittner & Larcker 1998, for a summary on this point). Furthermore, Luft & Shields (2002, cited in Maines et al. 2002) found that non-financial measures caused individuals to attend more closely to relations involving future financial measures and increased the accuracy of the prediction of these measures, supporting a growing body of research on this issue (see Ittner & Larcker 1998b for a summary). Additionally, Maines et al. (2002) documented that researchers found strong associations between non-financial and financial measures. Finally, it has been asserted that the use of non-financial measures may improve managers' performance ratings by providing a more precise evaluation of their actions, as many non-financial measures are less susceptible to external effects than financial ones (Spremann & Gantenbein 2002).

Alternatively, the time and cost involved to track numerous non-financial measures can be substantial. Furthermore, the fact that many popular non-financial indicators (e.g., customer satisfaction) can be measured in varying ways makes comparisons and evaluations difficult (Spremann & Gantenbein 2002; Ittner & Larcker 1998).

The firm-specific results of the management compensation literature (see Maines et al. 2002 for a summary), along with the value of non-financial measures in value relevance and predictability studies, raise the issue of whether companies should be using an integrated framework to report non-financial and financial measures (Maines et al. 2002). This approach underlies frameworks such as Kaplan and Norton's (1992) Balanced Scorecard and the Dynamic Multi-dimensional Performance framework (Maltz, Shenhar & Reilly 2003). Unfortunately, resistance remains, as managers tend to avoid using multiple indicators, having a strong preference for single indicators which produce unambiguous results (Shaw 1999).

Commonly Utilised Measures

Choosing a performance measure is one of the most critical challenges facing organisations (Ittner & Larcker 1998). It is common for corporations to have numerous performance measures (Neely, Adams & Kennerley 2002), though financial measures dominate for Australian, UK and US executives (Phillips & Shanak 2002; Clark 1999; Kokkinaki & Ambler 1999).

This investigation targeted studies examining variables that related to performance, in general. For an article to be eligible for inclusion it had to meet the following criteria: (a) examine performance, be that objectively or subjectively; (b) be empirical in nature (analysis is based on primary and/or secondary data); and (c) could not be in the seven academic marketing and management journals between 1991 and 1995, utilised by Ambler and Kokkinaki (1997), eliminating cross-over. This present literature review covered 46 publications between 1992 and 2003, with 89 per cent of the articles being published between 1996 and 2003.

Ambler and Kokkinaki (1997) had conducted this type of review, though several years had passed since their results were published. Consequently, it was thought pertinent to revisit the issue and to identify changes. Ambler and Kokkinaki (1997) reviewed 150 articles relating to performance measures between 1991 and 1995. They found that the top three measures were sales (and growth), which accounted for 22.3 per cent of the total measures, market share (17.1 per cent), and profit contribution (11.0 per cent) and brand preference / purchase intent (11.0 per cent), both in third place. Ambler and Kokkinaki (1997) found that 67.3 per cent of the measures were financial, compared to 32.7 per cent being non-financial.

This present review revealed 25 different performance measures, with eight being financial and 17 being non-financial. However, those eight financial measures make up 53.6 per cent of the total indicators used. The gap between financial and non-financial measures in this study is only 7.3 per cent, compared to 34.6 per cent in the Ambler and Kokkinaki (1997) study. Unfortunately, apart from the initial financial measures which almost mirror those of Ambler and Kokkinaki (1997), there seems to be a fragmented and uncoordinated effort to conceptualise and operationalise performance, specifically from a non-financial perspective, with numerous measures only being utilised in individual studies.

Conclusions and Recommendations

This study focused on two aspects of the performance concept, and only briefly in the context of an ANZMAC paper. The literature review identified two key issues. Firstly, there seems to be a clear preference for subjective performance measures by researchers. This is most probably explained by the sensitivity and confidentiality that performance questions evoke. Secondly, even though there is clear support for the use of non-financial measures, with this research showing that the gap between the two types of measures is diminishing, it seems that researchers and managers alike still prefer financial measures. However, this literature review has shown that the use of multiple measures, both financial and non-financial, is necessary to fully measure the performance concept.

Psychometrically and theoretically, researchers know that a multidimensional model of performance will capture more facets of performance than any single dimension can (Clark 1999). Nevertheless, marketing researchers continue testing single measures, with many offering a partial rather than comprehensive perspective on performance (Neely, Adams & Kennerley 2002). Due to the inadequacy (see Clark 1999 for a summary) and variability of single dimension measures, the reliability of performance evaluation is questioned (Ambler & Kokkinaki 1997), which consequently hinders theory advancement (Katsikeas, Leonidou & Morgan 2000). There is enough academic history on performance perspectives such as "finance and customers", such that marketers could be using a set of standard measures, not continuously inventing new ones. Marketing academics could develop a subset of measures that are simple enough to be usable but comprehensive enough to give an accurate performance measurement (Clark 1999). This cannot be accomplished via the use of single item financial performance measures. Models such as the Balanced Scorecard which have received little empirical research from marketing academics, could be looked at more closely. The Balanced Scorecard monitors performance through four perspectives: financial, client, learning and growth, and internal processes, enabling short-term and long-term goals to be linked. Models such as this need to be further developed and tested if marketers wish to construct a general performance measure.

The review of performance measures has identified that current measurement selection seems to be somewhat arbitrary rather than scientific. Consequently, researchers' focus should be aimed at developing a standardised conceptualisation. An investigation involving the meta-analysis of performance, including defining the construct, would benefit marketing by encouraging contributions to the marketing literature, and stimulating management attention.

Table 2: Classification and Frequency of Appearance of Performance Measures

Performance Measure	Frequency	Percentage	Financial / Non-financial
Sales (and Growth)	25	16.8	Financial
Return on investment	21	14.1	Financial
Market share	16	10.7	Financial
Return on assets / Profitability	12	8.0	Financial
Service quality	12	8.0	Non-financial
Satisfaction (customer and company)	10	6.7	Non-financial
New product success rate	7	4.7	Non-financial
Overall performance	7	4.7	Non-financial
Customer retention/loyalty	7	4.7	Non-financial
Overall performance relative to competitors	7	4.7	Non-financial
Return on equity	6	4.0	Non-financial
Satisfaction with overall performance	3	2.0	Non-financial
Return on sales	2	1.3	Financial
Brand awareness	2	1.3	Non-Financial
Gross operating profit	2	1.3	Financial
Dollar share of the served market	1	0.7	Financial
Occupancy rate	1	0.7	Non-financial
Customer complaints	1	0.7	Non-financial
Expectations achieved by organisation	1	0.7	Non-financial
Number of visitor to website	1	0.7	Non-financial
Room occupancy rate	1	0.7	Non-financial
Attracting new customers	1	0.7	Non-financial
Return on capital	1	0.7	Financial
Volunteers numbers increased / decreased	1	0.7	Non-financial
Employee turnover	1	0.7	Non-financial
TOTAL	**149**	**100**	

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