

Gordon Institute of Business Science

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PROFIT VS CUSTOMER: A COMPARATIVE ANALYSIS OF THE FINANCIAL PERFORMANCE OF GOAL ORIENTATIONS

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Abstract

Which goal orientation results in better performance? A profit orientation or a customer orientation? To date, researchers have presented opposing arguments with respect to this important issue, stating that both orientations lead to above average returns. Therefore this papers seeks to address this issue. This paper aims to contribute to quantitative research conducted in the Strategic Management field because the results have significant implications for decision making procedures of firm strategies.

To address this debate, the researcher empirically tests the reported financial results of firms characterised under each strategic orientation. Coding of CEO letters and letters to shareholders provided the two groups of companies tested and literature provided the categorisations. The results show that a customer orientation leads to better financial performance than a profit orientation over a 15 year timeframe in terms of two measure of profitability, the internal accounting measure of Return on Equity (ROE) and market related measure of Share Price Appreciation. The results have significant implication for decision makers and strategy theory as empirical tests over the 15 year period clearly demonstrate the superiority of a customer orientation over a profit orientation in attaining superior financial performance.

Keywords Customer Orientation, Profit Orientation, Goal orientation, Return on Equity, Share Price Appreciation

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements of the degree of Masters of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university. I further submit a declaration that I have obtained the necessary authorization and consent to carry out this research

Christabel Ziyambi

6th November 2017, Illovo

Dedication

To my late father who somehow raised three women who were daddys girls! You set the bar too high and I have not figured out who will cheer me on and talk to me pragmatically as I finish this journey called life. It was too soon daddy, but thank you for insisting I start this MBA journey to keep me sane during one of the hardest times in my life.

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To the pieces of my heart running around outside my body, I love you and thank you for always making me smile and getting me out of my head and being the least demanding relationships throughout this whole process. Liefie you are my favourite person and dwimples, aunty smunty is back full time every second weekend.

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Chris Muller, for taking the time to explain time series to a group of highly panicked and highly strung quantitative research students.

To my old friends, well those that are left thank you for understanding and being supportive when I was trying to climb a mountain wounded. To my new friends, the only people who understood what I was going through, thank you for never undermining that experience or the emotions it elicited, for your support and helping me to refocus my priorities when I was being me. I cherish the connections I've made and hope they will last a lifetime.

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Chapter 1: Problem Definition

1.1 Introduction

Anglo-American signals major shift in strategy on asset sales. – Business Day 17 February 2017

This headline directly reflected the importance, of organisational goals and the impact they had on company activities, decisions about investments and divestments. Anglo-American in 2016 announced that it undertook a strategic overhaul of selling off assets to pay down debt. They focused, to honour its commitment to its shareholders. By reducing the scale of its operations they effectively aimed to reduce supply to customers in order to survive a harsh commodity climate (Seccombe, 2017). Less than a year later, its cost cutting measures and not the asset divestments accomplished what they set out to do and both times the share price responded to the announcements. The media has constantly reported on an after - the - fact view of or perceived strategic pattern of the different goals and strategies firms undertake to obtain positions in the market that result in competitive advantage (Gopinath & Siciliano, 2014, p. 7). Goals and strategies are instrumental and guided the building of requisite competencies and abilities, which sustained competitive advantage. Some practitioners, like Hewlett-Packard (HP) argued that a firms' strategic objectives or goal orientation helped a firm focus its allocation of resources, established measurable performance targets, improved the motivation and commitment of employees and ensured better communication between management and employees. This is presented in the statement by Dave Packard which has reportedly guided the firms' business conduct since its inception (Hewlett-Packard, 2015; Robb, 1977).

"It is necessary that people work together in unison toward common objectives and avoid working at cross purposes at all levels if the ultimate in efficiency and achievement is to be obtained."- Dave Packard. p. 2

Organisational objectives are presented in goal orientation theory. This paper sought to contribute to this literature by conducting an investigation into the financial benefits of strategic orientations as objectives. It further, sought to improve previous research by comparing the Return on Equity and share appreciation performance of two different orientations. Through empirical evidence the author hoped to contribute to strategic decision-making of organisations such as Anglo-American who through a profit objective, had the intention to sell assets then proceeded to retract that decision. These changes

in strategic objectives affected not only investor and employee confidence in the long-term as they grappled with the change in decisions in a short timeframe, but morale of its employees as they had to exist in the uncertainty about the long-term security of the jobs and ultimately the company culture. The two goal orientations that will be investigated are customer and profit.

1.2 Definition of Problem Statement

It is widely accepted that the primary purpose of an organisation and ethical imperative was profit. There are diverse arguments as to the specific strategic stimulant that drives superior financial performance. An argument prevailed that the primary goal should be driven by a profit focus (Jaehn, 2016; Shi, Zhao, & Xia, 2010); A contrary view was that a customer objective is the key to sustained financial performance (Brockman, Jones, & Becherer, 2012; Narver & Slater, 1990; Singh & Pattanayak, 2014; Tang, 2014) and yet there is a middle view that a hybrid of the two orientations should be the emphasis. To answer the question, we need to understand why strategic orientations are essential. To better understand the two architects of this contention, business and academia a brief over view is provided of the different contexts that specifically goal orientation occupies, and the importance of a goal orientation to each.

In the current world political climate, companies are exposed to dynamic business environments and in developed economies experience a slowing down of economies in their respective markets (Buttiglione, Lane, Reichlin, & Reinhart, 2014). However this slowing down of the market, did not preclude from the expectation by stakeholders to continue to create value, but rather produced pressure to create exponential growth to buffer against the deceleration. Economies in developing countries experienced similar pressures as economic reform led to structural changes in markets, such as the opening up of economies, which came with global competitive pressures because of the exponential growth of markets and an acceleration in transaction activity (Chironga, Leke, Lund, & van Wamelen, 2011; Lagoarde-Segot, 2016). As such companies in these micro-climates were subject to increased environmental uncertainty and unbalanced growth (Boso, Story, & Cadogan, 2013; Goedhuys & Sleuwaegen, 2010). Another facet of economic transformation that affected business today is the interconnectivity of the world; which translated into businesses operating in increasingly liberalized economy (Hamilton & Webster, 2015, p. 5). Globalization continued to grow at an accelerated rate, firms are presented with new threats and opportunities as such as the separation between different regions no longer existed and as a result, exchange of goods, services, money and customers has been stimulated. These dynamics have inevitably shaped the decision-making processes of firms, as well as decisions regarding how to pursue the

opportunities, address the threats and created and delivered customer value (Webb, Ireland, Hitt, Kistruck, & Tihanyi, 2011). All companies attempt not only to survive the dynamics, but to achieve superior business performance in their competing markets. To this end, the role and understanding of strategic orientation's such as profit orientation and customer orientation are vital.

Both scholars and advocates of profit and customer orientated strategies, viewed their paradigm as the best for attaining higher profitability. Although both orientations are well represented in literature, there has been no empirical research done that focuses on the performance differences between the two views. Focused was emphasised on further development of theories, which reported conflicting results of the relationship between these two goal orientations and firm performance. Some studies presented a positive relationship with firm performance (Che-ha, Mavondo, & Mohd-said, 2014; Gupta & Batra, 2016; Lechner & Gudmundsson, 2014; VandeWalle, Cron, & Slocum, 2001) and some presented positive relationships moderated by certain elements, such as Market Orientation (MO) (H. Liu, Ke, Kee Wei, & Hua, 2013) transformational leadership (Engelen, Gupta, Strenger, & Brettel, 2015) to name a few moderators. Wales, Patel, & Lumpkin, (2013) investigated and provided evidence of the variance in performance as dictated by leadership traits. All this research presents different types of goal orientation and the resultant financial performance benefits. The goal orientations presented in literature include learning and motivation orientations as an example Market Orientation (MO) and Entrepreneurial Orientation (EO), represent motivations driven by a learning orientation.

There was advocacy for the development of models to explain the dynamics of the functioning of the theory and its constructs within an organization. Each proposed conceptual motivations to achieve financial advantage. In his seminal work on profit maximization a typology of profit orientation strategies Friedman, (1970a) identified that tighter theoretical framing of the concepts had to be used and that application of models was critical for developing insight into the impact of the strategic orientation on firm success. Profit orientation was concerned with balancing operating costs, sometimes ineffectively and benefits offered by the firm, as they strive for profitability (Roberts, 2013). This was evident by the amount of research invested into each conceptualisations, including its associated methods such as cost minimization a typology of profit orientation (di Tillio, Kos, & Messner, 2017; Kumar, Venkatesan, & Reinartz, 2008; J.-Y. Lee, Sridhar, Henderson, & Palmatier, 2015; Pelegrin, Fernandez, & Garcia Perez, 2016; Shah, Rust, Parasuraman, Staelin, & Day, 2006).

Customer orientation has gained recent momentum as evidenced by companies like Amazon and Apple that are innovating and investigating how to improve customer value. It was a key firm organizational capability, associated with not only used market intelligence to understand a target customer but to develop internal values, norms and processes to create value for the consumer, which is beneficial for competitive markets (Alteren & Tudoran, 2016; Narver & Slater, 1990). Customer orientation was supported by the internal organizational culture and contributes to a firm's competitive advantage and performance because it involved the actions that organizations undertook to implement this strategy (Grinstein, 2008; Kohli & Jaworski, 1990; Narver & Slater, 1990).

1.3 Research Objectives

This research intended to determine the difference in financial performance between companies that have a profit and as primary goals, in order to provide empirical evidence that can be used by managers to make the decision on which goal has the highest contribution to profit. Performance as the dependent variable will be measured using Return of Equity (ROE) and share appreciation over the timeframe of the study. Strategic orientation as the independent variables was measured using constructs of each orientation determined from literature. Therefore a quantitative research methodology was conducted on the reported financial results of the organizations related to the orientations. In addition, goal orientations involved a significant investment for firms into acquiring resources, skills, knowledge, instituting internal processes aligned to the orientation deemed to produce highest financial returns. The importance of financial performance as an outcome was perceived as the goal of most organizations and therefore research was required to better understand the relationship between different goal orientations and performance.

1.4 Research Motivation

My purpose in conducting this research was to provide empirical evidence of which orientation between customer and profit focused strategies are more beneficial to a firm. Although the questions contained in this paper are not specific to either theory, the rationale for the research was in keeping with the intention for business research conducted to provide insight into company performance. There was scarcity in the strategic management field and empirical research based on quantitative research comparing firm success created by both orientations.

1.5 Potential Users of the Study

In most private-sector business', profit is the primary aim of a company and one of the primary indicators of performance whether initiated internally by management or externally by investors seeking returns. This has stimulated a growth in seeking to understand the role of customers as companies seek to understand the relationship between profitability and customers. Some Microfinance Institutions (MFI) are experiencing the effects of the tension between adhering to the original social enterprise goals that serve low margin and income customers not addressed by traditional lending facilities and the shift to a profit orientation as pressure to remain sustainable and investors into these institutions demand profit (Roberts, 2013). For some the stressor was government legislation enforcing Corporate Social Responsibility (CSR); aligned to (Godfrey, 2005) some state that leads to protective insurance for relationship - based instable assets; with those aligned to Freidman (Friedman, 1970a) claiming that CSR leads to lower profits (Man, 2017).

1.6 Relevance to South Africa

The question of why some firms perform better than others does not seem to be contained to international markets but locally. Examples of companies who chose to maintain profit objectives at the cost of customer loyalty was evident in stories of reputational loss. The employees of Pick n Pay, motivated by a profit objective recently made decisions about food items that resulted in food poisoning. The strength of reputational loss/gain has never been more evident in South Africa as companies who broke the trust of its customers seem not only to face the loss of profits but legal prosecution as well; Spur and KPMG are two such examples. In contrast changing customers' needs have brought on the advent of companies such as Candi&Co under the Sorbet Brand, was developed in part because middle to upper-income black patrons have experienced exposure to better service and demanded it when they get back to SA. The brand's strategy was to serve the unbanked portions of the market through targeted customer centricity. Legislation such as Black Economic Empowerment, focused at its heart on economic inclusion has forced Trade to re-evaluate purely profit centred business strategies (Alessandri, Black, & Jackson, 2011). Profit sharing implied a focus on profit-generating activities however which activities produced superior performance? The answer for Business laid with customer focused business strategies. On the bridge between the two strategic orientations are firms such as SAB miller who were successfully acquired at staggering amounts because of the firms focus on the balance between customer and profit objectives.

On a broader scale the South Africa budget speech delivered on the 25th of October 2017 stressed the need to improve economic growth position of the country (eNCA, 2017). South African companies are faced by a number of challenges such as the recent credit down grades and exposure into new territories whether north of the border or internationally that exposes the firms to increased and more complex competition (Estrin, Nielsen, & Nielsen, 2015; Liou & Rao-Nicholson, 2016). As a result the need for business strategies, which delivered sustained profitable growth becomes an imperative. This is in line with one of the National Development Plan 2030 goals of Positioning South Africa in the world.(National Planning Commission, 2011). Another goal that is affected by strategic orientations of organizations is the goal of eliminating poverty (National Planning Commission, 2011). Attaining this goal can only be achieved when corporates use appropriate business strategies to produce above average returns, thereby attracting Foreign Direct Investments (FDI) opportunities despite the downgrades, creating employment opportunities and paying taxes that enable government to fulfil its social mandates.

1.7 Existing Research

Profit orientation and customer orientation are categorised as strategic orientations. The majority of the current literature on profit orientation was found in the Microfinance industry because it gained momentum in the industry as the sector evaluated what was the benefit of converting to a profit orientation. A profit orientation resulted in the transfer of costs to the customer and increased the cost of the Microfinance Institution (MFI), reduced the ability to meet the organisations mandates (Roberts, 2013; Shahriar, Schwarz, & Newman, 2016). Demonstration that although a profit orientation was primarily linked to processes and activities that guarantee the making of a profit, it resulted in lower returns as firms engage in self-preserving behaviour (Shahriar et al., 2016). In comparison (Doyle & Hooley, 1992) found that firms that focus on long term market share exhibit better financial performance and stronger positions than those aligned to a short-term profit performance. Customer orientation has reported conflicting views in literature, (Brockman, Jones, & Becherer, 2012) found that although essential to firm success there was no relationship to positive financial performance. In contradiction (Grissemann, Plank, & Brunner-Sperdin, 2013; Tajeddini, 2010) found that it led to better performance.

Chapter 2: Literature Review

2.1 Introduction

This chapter contains the literature reviewed in this study that was used to develop the hypothesis analysis in the following chapter. It provides a summative literature review of the two strategic positions and presents the arguments found in literature on why the orientations are considered to be associated with financial performance. Below is a diagram representing the structure of the literature reviewed;

Figure 2: Profit Orientation

indicates the field that this research lies in and the main theories supporting this field, Figure 2 **Error! Reference source not found.** and Figure 3 present the orientations investigated and the constructs that define the positioning.

Figure 1: Scientific Field of Research Investigated

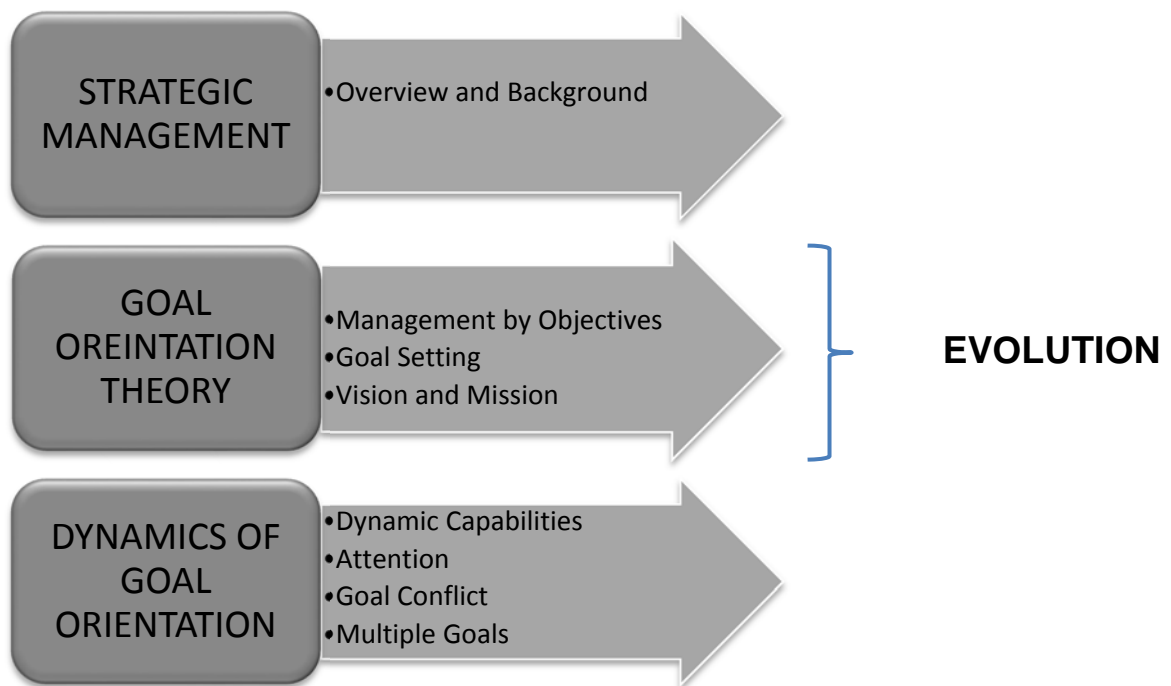


Figure 2: Profit Orientation

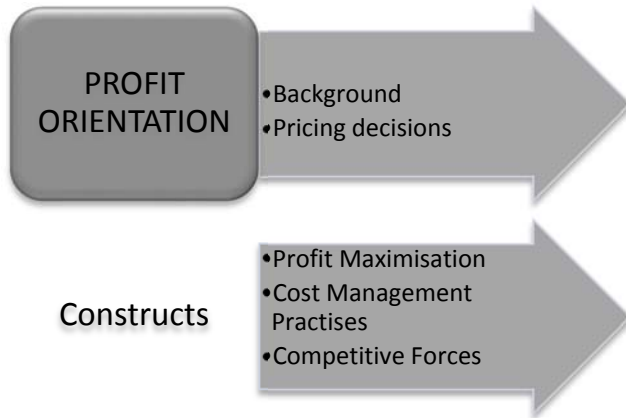
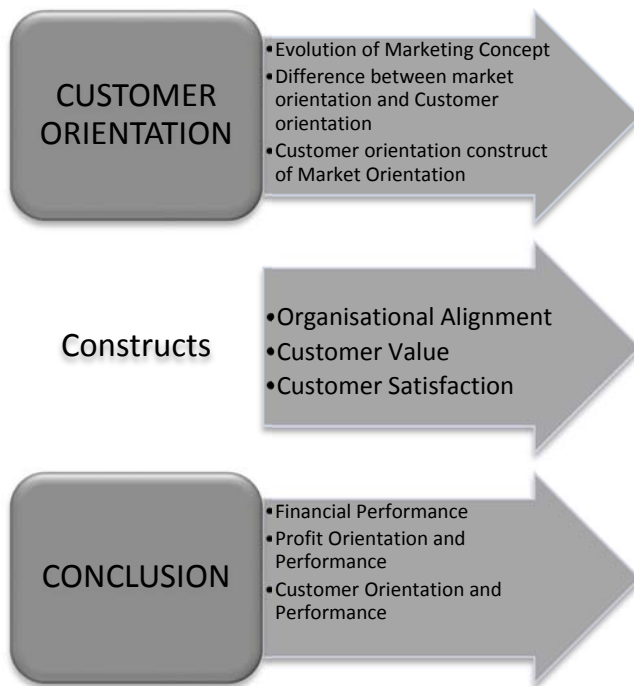


Figure 3: Customer Orientation and Conclusion of Literature Review



2.2 Origins of Strategic Management

It was Drucker, (1954) who stated that the primary goal of an organization is creating a customer. More than a decade later Kotler, (1967) introduced a new paradigm, which proposed that companies' profits were the result of sales and satisfying customers through integrated marketing activities. In the field of economics a similar sentiment was rising with a refining of the definition of consumption, as a factor driven by need and satisfaction, the economist Lawrence Abbot in his well-known essay stated that:

What people really desire are not products but satisfying experiences. People want products because they want the experience bringing services which they hope the products will render (Achrol & Kotler, 2012).

Nike Inc, grew using this model, meeting and satisfying customers during the jogging craze of the 60's and 70's, they sold benefits and not products. The company provided evidence of the influence of a strategy on an organisations choice of activities, allocation of resources and culture. Thereby emphasising what both authors, Drucker (1954) and Kotler (1964) highlighted, that the importance of strategic orientation was that it gave direction to an organization on the type of activities which created and sustained internal behaviours for continued financial performance (Gatignon & Xuereb, 1997). A strategic orientation defined the firms, which underlined values and belief structure and directed the nature and scope of the activities the firm engaged in. Such as Google which had integrated its purpose or strategic orientation into its corporate culture and the result is that it consistently won accolades for the best place to work. The strategy outlined an organisation's priorities, dictated its interactions with the clients, and defined its distinct identity. Therefore, a firm's strategy was its philosophy and contextualized and influenced the decision making of management. However, the strategy was not functional alone, it required a system which facilitated implementation, and that is management practice.

Management practice was an organisations alignment with a goal. The leading proponent of management practice was Fayol (1969) who conceived of what is known today as the management activities of forecasting, planning, coordinating, organizing, commanding and controlling (Smith & Boyns, 2005). Refer below Figure 4.

Figure 4: Five Stages of Management Practice



Smiddy and Naum (1954) expounded on this theory, and focused on three of the managerial processes, planning, organizing and controlling. The history of management practise is built on the idea of a single, implied organizational goal and all the activities designed around achieving this un-communicated objective (Greenwood, 1981). For this reason Drucker was credited with isolating the decision objective or a mission as an answer to a fundamental question (Rey & Bastons, 2017). He built management as a discipline and planning, organizing, leading and controlling are viewed as the core management activities by several authors. Massie and Douglas (1973) added to existing knowledge in the field by distinguishing seven core process of management and this included setting of objectives (Bartol & Martin, 1998; Becker & Homburg, 1999). Today, management practise research is involved with understanding management as behaviour and investigating the actions of management as strategists try to understand strategy as a choice.

2.3 Goal Orientation Theory

Strategic choice, the making of a decision on what type of strategy to pursue, is addressed in what is known as goal orientation theory. This theory originated in educational psychology whereby Dweck and colleagues discovered that the test subjects had two different goal orientations, a learning (developing) and a performance (demonstrating abilities) goal orientation respectively (Dweck & Leggett, 1988; Elliott & Dweck, 1988; Seijts, Latham, Tasa, Latham, & Journal, 2011). A learning goal

orientation, was concerned with seeking opportunities which developed competencies (Seijts et al., 2011). The benefit of a learning goal orientation to organisations is that it implied that an organization had developed iterative learning processes and built competencies, which adapted to change in environmental conditions. The focus of goal orientation was on ability and therefore was about developing the skills and obtaining the knowledge to achieve this goal. Strategy provided the platform for integration decisions, for a set of actions attain a specific goal. Vandewalle, (2000) transitioned the theory into organizational behaviour and has conducted several studies in relation to goal orientation to sales performance and individual actors (Seijts et al., 2011).

2.3.1 Evolution of Goal Orientation Theory

Therefore goal orientation in Strategic management theory was important because it represented the intention and motivation for the purpose of contributing to firm performance. This was aligned to Drucker (2007) work on goal orientation, which in the Strategic management field, is considered the earliest portrayal of the concept. However, it evolved from its original permutation into Goal Setting Theory, Vision and Mission Statement and Management by objectives. Seijts and his colleagues, (2011) in opposition to the goal as the most important decision for goal orientation theory proposed that the process towards a goal is more important than the goal itself, which contradicts the premise of goal setting theory, one the most important theories under goal orientation. However, vast amounts of research by fellow researchers in the field of goal setting contradicts their proposition, proving that the goal is a positive mediating factor of motivation to attain a goal (Locke & Latham, 2002; Lunenburg, 2011; Tosi, Locke, & Latham, 1991).

2.3.1.1 Goal Setting

Goal setting theory originated from the psychologist Ryan (1970) based on earlier work by Mace (1935), and Lewin and his fellow researchers, who had that a conscious goal led to action (Locke & Latham, 2002). They claimed that the goal set was a mediating factor to attain the goal and that three factors were moderator's feedback, task complexity and commitment in the form of importance and self-efficacy. Goal setting basically argued that the relationship between a goal and performance exists when a goal is specific, measurable and linked to performance measures and feedback. A learning goal orientation was linked to self-efficacy, in that failure was perceived as a feedback mechanism, not as an indication of unmet objectives and that leads to an increase in self-efficacy (Bandura, 1986). Locke and Latham, (2002) indicated the importance of self-efficacy in goal setting theory, because it showed a commitment to

goals, attaining and using enhanced strategies to achieve a goal and positively responding to negative feedback. This was related to the satisfaction one would experience when a goal is met, that becomes motivation to develop methods and processes to continue to meet goals. Intel's employees annual bonuses' are dependent on meeting the firms measured objectives (S. K. Dutta, Lawson, & Marcinko, 2013).

Goal setting and by extension goal orientation theory are the underlying explanation for all theories on motivation at work context as a means to improve and sustain performance (Lunenborg, 2011). They related the goals to three main components, goal specificity, goal attainability and goals difficulty and the relevance in time as researched by (Fried & Slowik, 2004). In the earliest forms of business, firms where authoritarian operated and managed and the strategic goals of organizations were rarely if ever communicated to the rest of the firm (Smith & Boyns, 2005). This was recorded in strikes of labour markets in the early twentieth century caused by the disassociation between a business' purpose and everyday work related activities, management and employees.

2.3.1.2 Management by Objectives

In the book, *The Practice of Management* (1956), the chapter, *Management by Objectives and Self-Control*, defined MBO as a principle that summarily provides breadth for capabilities and responsibility. He proposed the plurality of objectives and commonality of the subsequent visions and effort required (pg133 – Drucker, 1955). Goal orientation allowed for managers to measure their performance against a known set of targets, enabled distinct responsibilities to be assigned to the management structure. This was observed in banking, education, technology, construction, environment and the hotel and leisure sectors in the Dubai and Abu Dhabi, United Arab Emirates. Sovereign states can be considered good examples of this principle of management by objectives, as the author observed because the Sheiks set a number of objectives such as moneyless transacting by 2020 and a target of 20 million tourists. All the industries are working and cooperating towards achieving the objectives set, irrespective of whether they operate in traditionally competitor roles, such as banking and Fintech. The proponents of MBO stated that the example of Dubai was evident of the principles ability to engage participants, provided flexibility to work toward those goals which used techniques determined suitable. Dubai it can be argued was established by subordinating the management's decisions under countrywide objectives. Dave Packard, one of the most well-known proponents of MBO and the cofounder of Hewlett – Packard, credited the success of the company to the concept (Robb, 1977, pp. 8–9).

(Drucker, 1954) concluded that former methods of determining strategy led to what he termed management by crisis or drive (pg .125), whereas strategic choices enabled an organisational path. Meyer, Kay and French (1965), in a study named Work Planning and Review, built on this concept and determined that perception towards content and challenges of the job, was more positive with pre-determined objectives. This is aligned to studies in conducted in educational psychology. The findings were established through a physical experiment conducted over one year were the performance of two groups was monitored; one group had co-created objectives and the other was evaluated using a traditional performance appraisal system. Raia (1965 and 1966) used a longitudinal study demonstrated that MBO failed to remain a motivational mechanism and exposed constraints that developed over time Ivancevich, (1972). These included:

- an indication by lower-level management that the goals were created without their participation;
- MBO created paperwork;
- An over – emphasis of quantitative measures;
- MBO was used to generate more work to do.

These problems however are indicative of problems within the management structure of the firm investigated and exposed a lack of procedural understanding of goal setting. Numerous subsequent studies drew correlations between goal clarity and performance levels and satisfaction with superiors Ivancevich, (1972). The study by Ivancevich had three recommendations, based on previous research, to ensure the successful implementation of the concept,

- Management by objectives must be specific to an organization and aligned to its existing processes,
- Legitimizing the principle through top management commitment, and the
- Participation of lower-level management in the setting of goals and mutual acceptance of the goals set.

Existing studies on Management by objectives were either case studies restricted to single firms (experimental) and therefore did not account for situational bias and other factors that could influence the study such as cross - industry and management style. (Ivancevich, 1972).No research has determined whether management by objectives can be sustained as a positive motivational force over a sustained period or studied the effect of a new manager on performance. The assumption with management by objectives is that management will contribute positively to the objectives after training however managing is a learned skill. Lastly, scientifically and empirically, the planning, controlling and motivational objectives of the principle have not been substantiated (Ivancevich, 1972).

2.3.1.3 Vision and Mission Statement

Previous versions of strategy referred to the activities of management, rather than formulation, making goal setting coherent. It was for this reason that Drucker (1970) argued that the missing factor in strategy was a series of objectives, including the making of decisions on what the business is, what it should be and what it could be. He proposed the stating of a business problem as a question and developing activities to answer that question. He introduced the mission as a formal statement that facilitates the process towards attaining the goals and represented an organisations formal statement of its identity and scope of the activities that it would engage. A goal was more accessible or understandable and provided a focus for this contribution. In contrast, a critique of vision and mission was that it was static, inadaptable to changing conditions and whereas a goal is responsive to environmental changes. Both are measurable and have been related to financial performance however a mission precedes strategic objectives (Rey & Bastons, 2017). Without a common goal, how was resource allocation determined? Without the necessary technology and resources to meet its objectives, organizational performance would be constrained. Different management styles are suitable for obtaining certain objectives (Deutscher, Zapkau, Schwens, Baum, & Kabst, 2016) such as transformational leadership that has been linked to innovation goals. However if that objective was not stated how could the key assets - managers provide direction? Organizational missions and goals not only simply its purpose for operating, but are used as motivation mechanisms and rationalize the internal and external decision making processes and informs the image of organization professed externally (Rey & Bastons, 2017). Additionally, the mission and goals are instrumental in explaining and outlining organizations processes in strategic management and organizational psychological research and this is evidenced by the volume of research into the impact of missions statements on organizational performance in for-profit and not-for profit (Macedo, Pinho, & Silva, 2016; Patrasc Lungu, 2015). The critical relationship between strategy the shaping of organizational culture, has been established through research.

2.4 The Complexities of a Goal Orientation

Previous management studies into the concept of strategic orientation by theorists, Sloan, Fayol, Barnard and Hopf, was based on the assumption that goals were predetermined and known (Greenwood, 1981). This view however did not take into account that stakeholders are dynamic in their values, objectives and expectations; it did not account for different and often opposing goals of management and staff, and motivation for achieving those goals. Therefore, in order to understand goal orientation

theory in the context of an organisation the author evaluated four factors that influence decisions making. Two of the factors exist in what was known as ‘the behavioural theory of a firm’.

2.4.1 Dynamic Capabilities

Considered pioneering research, Teece and his colleagues portrayed dynamic capabilities as learned organizational skills supported by the codification of objectives, this enabled adaptation to changes in an environment (Ringov, 2017; Teece, Pisano, & Shuen, 1997). This is most evident in the clothing house Zara that have used technology as a capability to deliver fast fashion in short time horizons in comparison to their competitors and although the work by Eisenhardt and his research partner Martin, challenge the agility of an organisations that have codified its objectives, Zara was considered a innovator. The scholars argued that dynamic capabilities, derived from codified habits and customs, disadvantage an organization in high velocity environments, because the systematisation of objectives reduces responsiveness to the environmental changes (Di Stefano, Peteraf, & Verona, 2014; Eisenhardt & Martin, 2000). (Ringov, 2017), displaying that in a dynamic environment the value of a codified dynamic capabilities decreases.

2.4.2 Attention-Based View of the Firm

The competing demands placed on the attention of decision-makers involved in the decision making and implementation of a goal orientation has given rise to the field of attention-based view (ABV) (Ocasio, 2011). This view addresses the challenges experienced by team members because of leadership. Attention-based view argued that a firms behaviour is the result of how firms channel and distribute the attention of their decisions makers (G. Liu, Ko, & Chapleo, 2017; Ocasio, 2011; Ringov, 2017). Attention allocation was important because it has implications on learning process, headquarter-subsidary relationships, market entry, formation of entry orientation in the business strategy and innovation. (Stevens, Moray, Bruneel, & Clarysse, 2015). Therefore attention allocation to goal orientation is affected by a change in context. Additional studies into the influence of the different elements of the attention structure on organizational goals and the interaction with contextual factors (Stevens et al., 2015) highlighted three important interactions between attention and attention allocation. These are

- Elements of attention structures influence attention allocation of decision makers between conflicting organizational goals.
- Described how the three attention structures and contextual factors interaction in

directing the attention allocation in for-profit social enterprise.

- Specifically a strong utilitarian identity is positively correlated to more attention allocation when a firm is experiencing high performance by exhibiting how the beliefs of the CEO impact social goals.

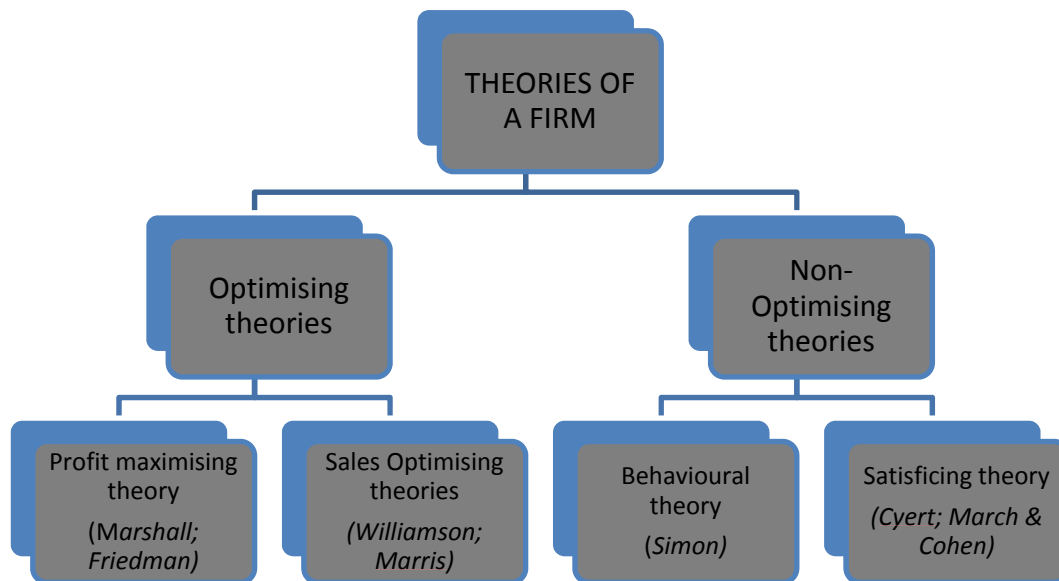
In relation to supplier strategies, Wei, Yao, Jiang, & Young, (2013) found that in Darwinian-style survival - of – the - strongest competition in Chinese markets, resulted in a change to survival-seeking strategies in the second period in order to combat the intense competition. Ocasio, (2011) however, opposed the former researches found and proposed that firms relied on existing strategies and made changes that are consistent with core assumptions and beliefs as understood by decision makers when confronted with economic challenges.

2.4.3 The Behavioural Theory of the Firm

In opposition to the neoclassical supposition of firms behaving rationally when accessing perfect information and expressed through the goal of profit maximization, Cyert & March, 1963; Raza & Rathinam, (2017) developed what is known as behavioural theory of the firm (Slater, 1997). Bringing a more realistic view of the firm they proposed that a business is formed from a coalition of individuals and groups, whether internal or external and firms have a responsibility to them all (Arcelus, Kumar, & Srinivasan, 2012). They further stated that a goal is formed as a result of bargaining between these groups, is stabilized by a number of internal controls processes and is adjusted over time in response to environmental transformation (Stevens et al., 2015).

Below is a diagrammatic presentation (Figure 5 **Error! Reference source not found.**) of the different theories of a firm and providing in-depth view is beyond the scope of this research however the implications to goal decisions and implementation for the behavioural theory of a firm are provided.

Figure 5: Theories of the Firm



Basically, they postulated that bargaining was complicated by bounded rationality which was similar to the work of H. A. Simon, (1959), on economic decision making, whereby he created the term satisficing, a combination of satisfy and suffice. He hypothesised that humans could not assimilate all the information that was given to them in order to make decisions (Sims & Boytell, 2015). Therefore, restricted by cognitive limits the human mind restricts itself and as a result people seek solutions that are good enough, not necessarily the best (He & Khouja, 2011; H. Simon, 1997). The four relational concepts that are the foundation of organizational goal formation, expectations and choice are:

- Quasi resolution of conflict, goals that function as aspiration-level constraints imposed by the demands of the coalition members;
- Uncertainty avoidance, whereby management focuses on short-term environments and feedback;
- problematic search, implies an engineered solution that is inspired and simple but biased by former education, aspirations conflicting goals of those involved in creating it;
- Organizational learning, which causes adaptations in goals, in attention rules and in search rules.

2.4.3.1 Goal Conflict

They rationalized business behaviour and the decision making process that leads to a behaviour, by defining a firm as a sum of moving parts – because although ‘the firm’ might have a single goal as a guiding coalition, organisational-coalition, managers, workers, customers, shareholders, suppliers, bankers, tax inspectors, etc. all the individual parts, coalition firm, could have separate demands and objectives that result in goal conflict (Raza & Rathinam, 2017). For instance the 1999 Columbia tragedy that resulted in the death of eight astronauts aboard a NASA’s space shuttle as it re-entered into orbit has been well documented in the book by (Starbuck & Farjoun, 2005, pp. 73–74) as stemming from time pressures, goal conflict and decision making process within the organization. The goal conflict arose from the tension between politicians with short election cycles not interested in NASA’s more long-term strategic goals that required investment on a longer time horizon (Starbuck & Farjoun, 2005, pp. 313–314). As the authors noted the conflicting goals translated to a conflict in resource allocation. Due to the complexities involved in a firm they therefore deviated from the traditional view of a firm as an organism, operating in a perfect market, experiencing no uncertainty (Koutsoyiannis, 1975, p. 386; Schlee, 2016). Based on work by March and Simon (1958) and (H. A. Simon, 1959) behavioural theory of a firm is important because it is interested in understanding the origin and decision making process, which leads to a goal, rather than a goal itself. Furthermore, (Nahrgang et al., 2013) warned that goals that are successful with individuals may not be effective for teams. The researcher and his colleagues demonstrated that faced with complex tasks, general learning goals and “prove” goals are more constructive than specific learning goals. As an example they Chelsea Football Club’s performance in 2003 can be attributed to that team was assigned goals that contradicted the manager’s orientation (Jose Mourinho), then lower levels of the assigned goal are exhibited i.e. team learning goal orientation and assigned team learning goals versus a high leader performance orientation (C. O. L. H. Porter, Franklin, Swider, & Yu, 2016).

2.4.3.2 Multiple Goals

Another factor that impacts decisions making on a goal is the effect of multiple goals (Sims & Boytell, 2015). Multiple goals cause conflicting goal alignment; as the NASA tragedy showed, a number of factors resulted in changing objectives, the influence from the past achievements, changes within the firm and in the environment that it inhabits (He & Khouja, 2011; Koutsoyiannis, 1975, p. 387). Some firms are motivated by multiple goals (Cyert & March, 1963; He & Khouja, 2011; H. A. Simon, 1959) even though some

goals do not result in financial gain such as environmental objectives but to the Sustainability Development Goals that are related to reputation. Top management performance of companies such as the Tshwane university of Technology (TUT) are linked to environmental objectives of the city and have contributed to secondary capabilities that support the primary goal, which is similar to the results found in the study by (Fukawa & Zhang, 2015). The scholars demonstrated that in addition to profit objectives and advertisements, open-source firms are motivated to expand their user network in order to obtain deeper knowledge about their customers. IBM, which formed part of the sample, grew through the use of open-source developers. At times though conflicting motivations result in inefficiencies (Almirall & Casadesus-Masanell, 2010; He & Khouja, 2011). Team sports provided a good example of inefficiencies caused by different objectives as Chelsea Football Club under the management of Jose Mourinho in 2013 failed to qualify. Some considered the loss to a conflict between the team manager and the team. Winning and operating as one organisation as goals could have resulted in the team qualifying and proved (H. A. Simon, 1959) argument that it was irresponsible for firms to state a single operational goal or objective. The danger of a single goal is that it impeded companies from constructing a more detailed view of the environment and the process of adaptation is slowed. (Raza & Rathinam, 2017). Companies that no longer existed because of an over-emphasis on a single goal are Xerox that failed to adapt to a change in environment from film to digital and Blackberry.

2.5 Profit Orientation

An organisations social and economic performance goals, determine its orientation, therefore firms with a profit orientation have managers who place greater attention to financial surplus, and are perceived to pursue appropriate prices and operate efficiently, to generate surplus profit even if it will not be distributed to shareholders (Roberts, 2013). The reverse implied a firm that emphasised social and social welfare over economic performance outcomes, will have a lower profit orientation (Stan, Peng, & Bruton, 2014). The classical view of the economics stated that purpose of business administration is to ensure economic sustainability (Jaehn, 2016). This purpose can only be achieved by providing goods and services wanted by the consumer (Drucker, 1954); (Jaehn, 2016; Primeaux & Stieber, 1994). It has been argued that the use of the word “wants” thereby distances the firm from the addressing of communal “needs” thereby absolving companies from responsibility to the community. However, the needs addressed by a firm constitutes a demand created (Bardakci & Whitelock, 2005; MacCarthy, Blome, Olhager, Srai, & Zhao, 2016). Revenue is created by meeting the demand generated for the goods and services produced (Currim, Lim, & Zhang, 2016). As a result the business’ will engage in profit-target orientated decision making (Shi, Zhao, & Xia, 2010). That is

why firms develop complementary processes, objectives and responsibilities that can ensure that the profit targets are met (Fukawa & Zhang, 2015). External market forces reward or penalize the firm based on whether the decisions made resulted in the meeting of the targets or not. Therefore the motivation of a firm will be to adopt the objectives, activities, behaviours and develop network relationships that optimize the probability of reaching the target (Raza & Rathinam, 2017). (H. A. Simon, 1959) argued that maximizing, as common in economic theory of the time did not account for the behavioural aspects of the methods used to reach the target. He further proposed that aspirational (satisficing) goals adjusted to the attainable, defined as the natural /zero point or in statistical terms revert back to the mean. Certain circumstances cause firms to abandon their profit orientations for survival mode (Wei et al., 2013), adverse economic conditions, severe competition and the risk of illiquidity (He & Khouja, 2011).

Therefore, if the primary goal of an investor was profitability and a firm was viewed as a potential investment vehicle, with the purpose of generating income, then a profit orientation became important (Malinovskii, 2015). Secondly, a profit orientation implied that a firm was concerned with sustainable economic viability or had a long-term focus, and therefore would be able to meet its financial obligations while continuously creating value for the individual, the firm and society (Jaehn, 2016).

2.6 The Difference between Profit Orientation and Profit Maximisation

Due to the dual use of profit orientation and profit maximization in scholarly research, necessitates the need to establish the difference between the two terms. The difference between profit orientation and profit maximization is in the decisions making process. Firstly, a profit objective was more practical for individuals and firms because the targets are often defined, rewards meted out based on the meeting or exceeding (Shi et al., 2010), in contrast profit maximization does not provide a measurable target. Secondly, a profit orientation assumed risk version; it operationalized risk aversion by providing a foundation, from which to base what is considered profit for the firm (Arcelus et al., 2012; Raza & Rathinam, 2017). Therefore, anything below the objective would be considered a loss and firms should avoid obtaining below that level. The maximization problem has not been portrayed as an analytical solution yet, but a numerical simulation whereas a profit orientation, implies targeted performance, which is quantifiable (Arcelus et al., 2012; Shi et al., 2010). Lastly, research has demonstrated that, profit – target orientated decision making, results to more managerial insight, such as improved coordination between a supply chain and retailer because of a wholesale price contract designed from feedback (He & Khouja, 2011; Shi et al., 2010).

2.7 Emergent Themes

In order to contextualize the research topic, it was important to thoroughly explore typologies of the two constructs under investigation. Which to determine the orientation of firms under investigation these characterisations of the concepts studied were used to refine the definitions of each construct and to provide a framework by Furthermore, the reviewed variations of each theory, assisted in indicating substitutes of the constructs as firms apply them. Some of the themes or iterations used as profit orientation strategies, revealed by literature, include but are not limited to Profit maximization, Competitive Forces, Cost Management and Pricing Decisions. These strategies are used as a framework to identify and demarcate firms aligned to this strategic choice or who have the strategic intention to align to profit orientation.

2.7.1 Profit Orientation by Pricing Decisions

Research into pricing decisions made by firms and their impact on firm performance where investigated by means of initially constructing a price competition model, that aimed to establish that the format used to depict prices, explains a consumer product choice (Piccione & Spiegler, 2012). Pricing decisions in welfare economics state that consumer welfare is representative of consumer preferences i.e. is indicative of the value that consumers perceive from a good or service relative to the price paid. It was a measure of the area below the demand curve but above the price paid, therefore it was *the difference between the price paid by an individual for a particular good or service and the maximum he would accept to pay.*(Khemani & Shapiro, 1993). Woolworths was a company that had exemplified this principle because the consumers paid more for the convenience. With regards to the estimation of the production function, researcher's investigated the problem of unobserved input prices and quantities. They exploited what was known as first-order conditions of profit optimization, labour and materials inputs, to recover firm-level material quantities, prices and productivity from available data provided by revenues, labour quantities and expenditures. Unobserved price dispersion is confirmed and a correlation was established between input prices and firm productivity (Grieco, Li, & Zhang, 2016). In practise some scholars claim that the goal is to optimize consumers' surplus, while others contend that producer benefits should also be incorporated.

It was for this reason that a number of studies investigate surplus – maximizing policies. These studies have found that a surplus-maximizing policy is Pareto – optimal if there was no uncertainty in the model: when prices and incomes fluctuated with the pricing

policy and utility can be differentiated, then consumer surplus is a measure of consumer preference. However, uncertainty existed in the form of economies and incomplete markets. (Schlee, 2016), proved that aggregate expected surplus i.e. consumer welfare is higher for a fixed price than a fixed quantity under the condition of a slightly convex cost and uncertain demand. He illustrated how firms making decisions to fix price outside of information from the market - demand result in prices that are minimally adjustable even with favourable policies.

Examined supplier benefit effects; it is argued that an intermediary controlled the prices charged by sellers for transactions with associated buyers, leading to an over investment into buyer paybacks, disproportionate adoption of intermediary services and retail price inflations (Edelman & Wright, 2015). This raised demand for intermediaries' services and consequently, led to reduced consumer surplus. Game theory, the researchers further used a two-stage model to establish an asymmetric equilibrium, which they argue results in half the earning potential for both firms because pricing and format decisions are made simultaneously (Piccione & Spiegel, 2012). Simultaneity, the researchers reasoned, was created by the access to price and product information afforded by technology i.e. online shopping. Interestingly, (Piccione & Spiegel, 2012) also discussed that in the long - run, customers exit relationships, with firms that use complicated or opaque pricing formats because of lowered switching costs and leads this researcher to argue that pricing decisions and strategies create ambiguity in the markets, as well as for consumers and thus reduce the probability of increasing returns to profits, over time. In another study, researchers illustrated that by sacrificing a small portion of profit, the cannibalization effect experienced by location decisions within a franchise expansion program, can be minimized – in contradiction to the profit maximization theorem (Pelegri et al., 2016).

2.7.2 Profit Orientation as Profit Maximization

Profit maximization theory originated in economics and was singularly connected to Milton Friedman, (1953); he proposed that a firm that does not engage in behaviour that profit maximized would ultimately be driven out of the market. This concept was supported by ecology, because ecosystems fail and are born when organisms do not adapt. What this implied about strategy was that organizations had to be constantly cognisant of the environmental conditions, be adaptive to changes and responsive to the environment by adding the necessary skills to survive – this is evolution (Biswas, Avittathur, & Chatterjee, 2016; Dong, Firth, Hou, & Yang, 2016). The concept was supported by the market selection argument, which states that in a competitive environment a firm has to be able to attract funds and to generate positive profit

(Samuelson and Marks, 2003). It was this ability to realise positive profits that served as a selector of survivors in the economic system. Therefore a firm that maximised the expected profits would survive (C. Y. Lee, 2016) because they are more likely to attract more investment (Sanchez-Barrios, Andreeva, & Ansell, 2016), which further prevented bankruptcy. Market selection argument as a theory however has not been significantly explored in relation to the revenue maximization theorem. (P. K. Dutta & Radner, 1999) developed a model using entrepreneurs whereby funds were raised for a high risk enterprise in a competitive capital market by offering a dividend policy. The dividend funds would be rationalized by randomly obtained flow of earnings. The researchers counter - argued that Friedmans' model proposed that irrational investors can exist and all survive. They proved that a particular focus on optimizing revenue leads to failure in finite time and therefore leads to bankruptcy (Radner, 1998). The researchers stated that this model was applicable for firms in a wide range of circumstances, which cannot possibly be true because new firms entering into a market, reduce market size, necessitating an increase of the market scope for survival. They proposed that a singular focus on profit leads to failure (P. K. Dutta & Radner, 1999; Radner, 1998) as evidenced by companies such as multi-choice that through-profit objectives transferred unnecessary costs to customers' and as a result the markets sensitivity to new entrants increased. Research into the concept of profit maximization has revealed that it is a complex and multi-dimensional construct. The additional lack of a traditional and agreed upon view of both concepts - profit orientation and profit maximization - that has been tested by the rigors of market activity such as demand or undergone empirical testing has made it difficult to validate measurement instruments offered by research.

Another definition of profit orientation as a PM include using the product of labour, a firm will profit maximize when it increases usage of the input "...to the point where the input's marginal revenue product equals its marginal costs" (pg 241. Samuelson and Marks, 2003). The production process generated costs associated with raw materials, labour and other input items (Honja, 2015; Juo, Fu, Yu, & Lin, 2015). A simplistic of profit, was revenue less cost (Sanchez-Barrios et al., 2016), therefore price and output decisions are functions of profit revenue and cost (Dong et al., 2016). Profit would equal revenue less cost and the profit would be an indicator of a firm optimizing its resources and costs (Honja, 2015; Jaehn, 2016). Therefore, profit maximization was defined as when firms create the conditions using specified inputs for marginal revenue to be equal to the marginal cost (Honja, 2015). Output, revenue and cost are levers and can be modelled into different scenarios (Allevi, Conejo, Oggioni, Riccardi, & Ruiz, 2017; Biswas et al., 2016). Profit maximization was concerned with developing & estimating models related to the operating costs, marginal revenue, marginal costs and optimal pricing (Chen,

Liang, & Xie, 2016).

Empirical research on differentiated products markets is often impeded by a lack of information from firms on their actual marginal costs of production. To compensate for missing data, researchers often create demand and supply models that involve (1) estimating a demand model with data on product-level prices, characteristics, and market shares and after assuming the conduct and costs of a firm (2) back out the marginal costs implied by the first-order conditions that direct an organizations optimal pricing decisions (Byrne, 2015). The weakness with these models is that they rely on stable market demand curves, which results in a change a in the level where the marginal revenue curve intersects the marginal cost curve. In a dynamic environment varying profit maximization levels will be measured or conversely a profit maximizing systems operating levels are dynamic in nature. When the market demand curve lies above the cost curve, resulting in a MR and MC that do not intersect at any operating level, the PM facility is operating at its maximum capacity (Moily, 2015). However, the implication is that the competitive environment is a constant money – making system, which it is not, as market demand varies over time. The nature and definition of the market would be the greatest criticism of this theory. Secondly, without transferability of duplicable factors, how can the market consistently select the right profit-maximizing firm? This was supported by Winter's (1964) criticism of Alchian and Friedman, who stated that transmission mechanisms dictate that positive behaviour can be retained and copied over time (pg. 8, van den Bergh, 2007). The flaw with the profit maximization model was that it assumed that costs and revenues or inputs and outputs can be predicted with certainty (Juo et al., 2015). Graphically profit maximization was demonstrated by the intersection of the marginal revenue curve by the marginal cost curve, from below. In addition the concept assumed that for every possible decision, an accurate estimate can be determined.

The neo-classical economic theory that advocated profit maximization a preoccupation with the bottom line, was established on two factors: (1) the concept of a manager, a being who makes a decision in accordance to a strategy (2) how this being (the manager) then allocates scarce resources. Failure or success was dependent on the quantity of goods or services produced, utilizing the specified amount of scarce resources; maximization of resources equates to efficiency. This was how the behaviour that causes efficiency, is incorporated in the conceptualisation of profit maximization (Dong et al., 2016; C. Y. Lee, 2016).

However, the link between profit orientation and PM was presented in literature about

the differences between the roles of For-Profit and Non-Profit (Cutt & Ritter, 1984, p. 7) organizations and marketing , as a function of a pricing objective (Hise, 1965; Lamb, Hair, & McDaniel, 2008, p. 539), essentially operating for the purpose of maximizing revenue relative to operational costs (Jayashankar & Goedegebuure, 2012; Lamb et al., 2008, p. 539; Roberts, 2013) and highly risky behaviour (Shahriar, Schwarz, & Newman, 2016; Shapira & Shaver, 2014).

2.7.3 Profit Orientation by Cost Management Practises

In a comparison study between profit and non-profit organizations it was identified that cost minimization strategies contributed to slack defined as an accumulation of unused resources. The study revealed that organizations that are government funded tend to suffer from what was called Soft Budget Constraints (SBC), an over dependence on government bailout and therefore rarely consider the financial implications of cost (Stan et al., 2014). This study argued that a stronger profit orientation led microfinance institutions away from the efficiency frontier. (Narver & Slater, 1990), argued that relative costs are an important consideration by top managers to the profit objective and a most likely to pursue differentiation and low cost strategies. They proposed three measures for a or emphasis, performance measured market by market, top managers emphasizing market performance and that all products must be profitable as indications of a firms, however they reported that they did not succeed in developing a measure for with a long-range focus (Narver & Slater, 1990).

2.7.4 Profit Orientation and Competitive Forces

Derived from revenue growth, margin improvement, and asset efficiency the value maximizing levers for competitive advantage include but are not limited to decisions about product margins, pricing decisions and cost management (Gholson, Schloegel, & Deloitte Development LLC., 2006, p. 91). The most popular of the perspectives was competitive forces developed by Porter (1980), which stated that a firm optimized its profits by selecting a market position whereby the forces of the competition do not affect the profitability of the firm or industry. The foundation of the perspective was that firms chose a favourable market structure and where they could alter the structure through different mechanisms (Miles, Snow, & Sharfman, 1993).

As environmental factors, the mechanisms presented by Porter related to the control of the industry structure include raising barriers to entry, product differentiation or obtaining and maintaining power in the market (Porter, 2008). In strategic management field, Porters strategic theories are considered generic as they suggest that above-average performance can only be achieved by adopting strategies based on either differentiation

or cost advantage. However, research by (Spanos, Zaralis, & Lioukas, 2004) determined that firm-specific characteristics produced double the amount of profit variability in comparison to the industry factors promoted by Porter. Seeking to contribute to literature integrating economic and production management theory, (Moily, 2015) established that a profit-optimizing production facility or system that has a profit outcome, operates at a full and stable level, providing that at maximum level a positive per unit contribution is observed and that the market remains price sensitive. Within microfinance institutions (MFI) new research into product decisions which can be equated to focusing on products with higher margins, has revealed that a stronger is associated with higher effective interest's rates and costs (Roberts, 2013). PM results in organizations acquiring staff associated with higher salary requirements and thereby causing higher payrolls; secondly while managers are engaged with PM strategies they are distracted from addressing specific customer needs or the specific of the i.e., their development logic, which is an inefficient use of resources of what has been termed X-inefficiency (Leibenstein, 1966). In service related industries such as healthcare and microfinance institutions (MFI), for-profit providers are induced to sacrifice quality or value for the benefits of profit maximization (Roberts, 2013)

2.8 Customer Orientation

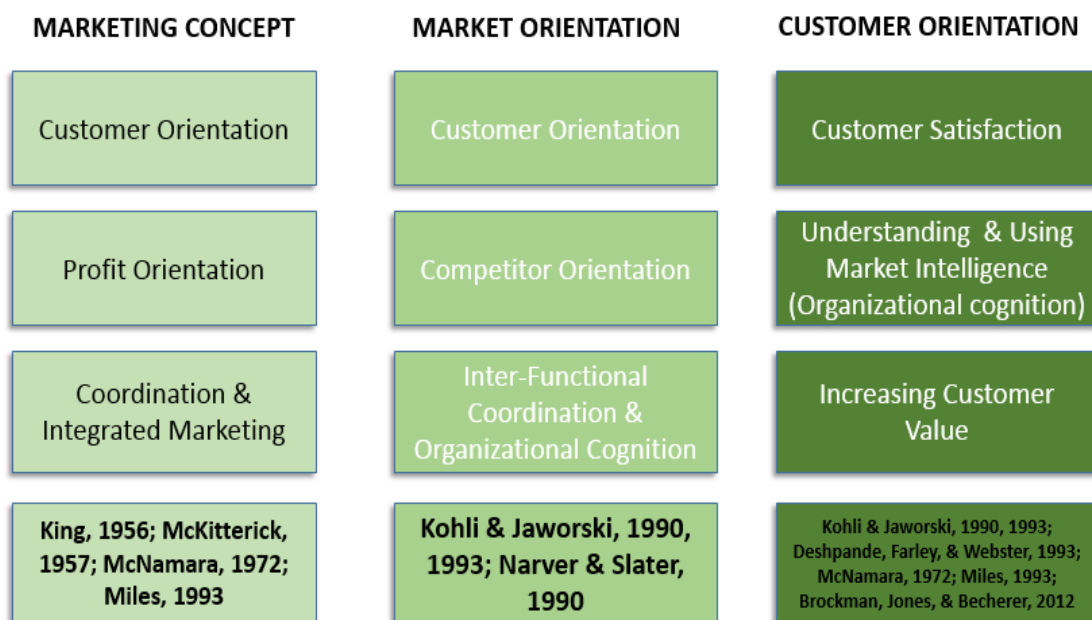
Customer orientation is a strategic approach taken by a company when it aligns its objectives around satisfying customer needs and wants and maintaining repeat customers. It is a commitment by a firm in the market, with the intention to use market intelligence to increase and to continuously create customer value, thereby establishing a competitive advantage, internal alignment of all the departments to the goal of meeting customer needs to create better financial performance. For this reason customer orientation was considered to be a learning-orientation view because it indicates a firm's ability to continuously process and internalized market information and through regenerative learning, are able to renew its organizational memory to create a shared vision for the organization that supports the creation of constant customer value through customer outcomes of innovation and loyalty (Day, 1999; Slater & Narver, 1994; Yaprak, Tasoluk, & Kocas, 2015). The importance of customer orientation as a learning – view characterized by social learning was discussed in the research by (Lam, Kraus, & Ahearne, 2010; Yaprak et al., 2015) whereby the diffusion of an market orientation commitment by top management down to the lower levels of the organization is achieved through work-group socialization. It involved information collection, synthesis and reaction to the information with regards to future and current customer preferences (Kohli & Jaworski, 1990, 1993). Not to be confused with Market Orientation, which is obtaining information and creating an environment to foster customer orientation, however some scholars use the terms interchangeably (Q. Wang, Zhao, & Voss, 2016). For the purposes of this investigation market orientation and customer orientation are considered separate terms; to clarify why, both constructs will be discussed below. Before the differences are discussed, the evolution of the customer orientation as it relates to profit orientation is presented. Please refer to the Figure 6**Error! Reference source not found.** below portraying the evolution of the principle.

It has been argued that the purpose of marketing is integral to the successful implementation of business strategies, because the current competitive environment necessitates a constant emphasis on supplying superior services and products to consumers (Tajeddini, 2010). The traditional focus of customer orientation, focusing on a buyers needs and producing profits through customer satisfaction (Kotler & Armstrong, 1989). According to Gatignon & Xuereb, (1997), customer orientation is defined as a firms will and ability to identify, analyse, understand and respond or answer the buyers potential needs. Narver and Slater (1990; 1994) defined customer orientation as the sufficient understanding of one's target consumer to be able to create superior value for them continuously. Whereas Deshpandé, Farley, & Webster, (1993) defined customer orientation as the set of beliefs that puts the customer interest first. Therefore in terms of

firm strategy, a customer orientated firm can be defined as the degree to which a business unit acquires and uses information from customers, designs a strategy to meet customer desires and the responsiveness of the strategy implemented to consumer needs and wants. This definition not only highlights the three measurement units of customer orientation, which are customer satisfaction (Brockman, Jones, & Becherer, 2012; Fornell, Morgeson, & Hult, 2016; Kumar, 2016), creating customer value (Brockman et al., 2012; Slater & Narver, 1994) and inter-departmental alignment (Narver, Slater, & MacLachlan, 2004; Q. Wang et al., 2016), secondly it implies that “the customer” is the most important factor in developing a customer orientation as a firm (Drucker, 1954; Kotler, 1967; Tajeddini, 2010).

Figure 6: Evolution of Customer Orientation

Evolution of Customer Orientation



2.8.1 Evolution of Customer Orientation: Marketing Concept

Kotler, (1967) introduced what is known as the Marketing Concept, which was a deviation from the marketing ideology at the time, that profits were the result of integrated marketing efforts in addition to sales volumes. The Marketing Concept was important because it was part of a competitive strategic orientation as it was a business management’s susceptibility to market conditions and the on-going search for enhanced methods to approach and address market opportunities. A variation of this combined study – profit orientation and customer orientation is represented in the research under the eponymous paper titled The Present Status of the Marketing Concept, it forms part

of a body of work by various authors who are part of what is known as the foundation of marketing (Brockman et al., 2012). These include, King, (1956); McKittrick, (1957); McNamara, (1972). Recognizing that a basic function of business is to balance the firm operations, its marketing function and the environment that it exists in, they emphasized the relationship and how it could create superior profits. The scholars developed the foundation, constructs and measurement instruments of what was known as the marketing concept. Which is defined as a firm – wide approval of a combined customer and profit orientation, whereby the importance of marketing in espousing to the internal departments, the needs of the market was recognised (McNamara, 1972; Narver & Slater, 1990). Earlier iterations of the concept described it as a combination of three principles; customer orientation, profit orientation, coordinated or integrated marketing (inter-functional coordination and organizational structure) (King, 1956; McNamara, 1972; Miles, 1993). McNamara, (1972) 's paper along with the Chapters presented in the books, 'Marketing: Critical Perspectives on Business and Management' and the revision of that book, 'Marketing Science,' is considered the foundation of marketing specifically the constructs as an orientation.

One of the early adopters of the construct is General Electric; evidence from research and text before 1990 credit the company for formally articulating the concept (Dickinson, Herbst, & O'Shaughnessy, 1986; King, 1956, p. 104).

McNamara, (1972), evaluated the assimilation of the marketing concept throughout all levels of an organization. The strength of the paper was in the range of sample firms used in the study, which included small to large firms therefore considering the statistic under investigation, generalizable to the market. However, particular weakness of the study which limits generalizability to other industries, is that the sample was from a wide variety of firms in the manufacturing industry. He concluded that although larger firms were more likely to adopt the concept, skill in the purchasing of capital goods was increasingly becoming important and that growth was a function of understanding the customer (McNamara, 1972). Referring to internal coordination and customer focus respectively. Dickinson and his colleagues (1986) expanding on the concept he tested the basic assumptions of this construct. That a buyer is rational and therefore knows what he wants and secondly, the market on what to produce i.e. customer sovereignty informs those firms.

[2.8.2 Customer orientation: A Component of Market Orientation](#)

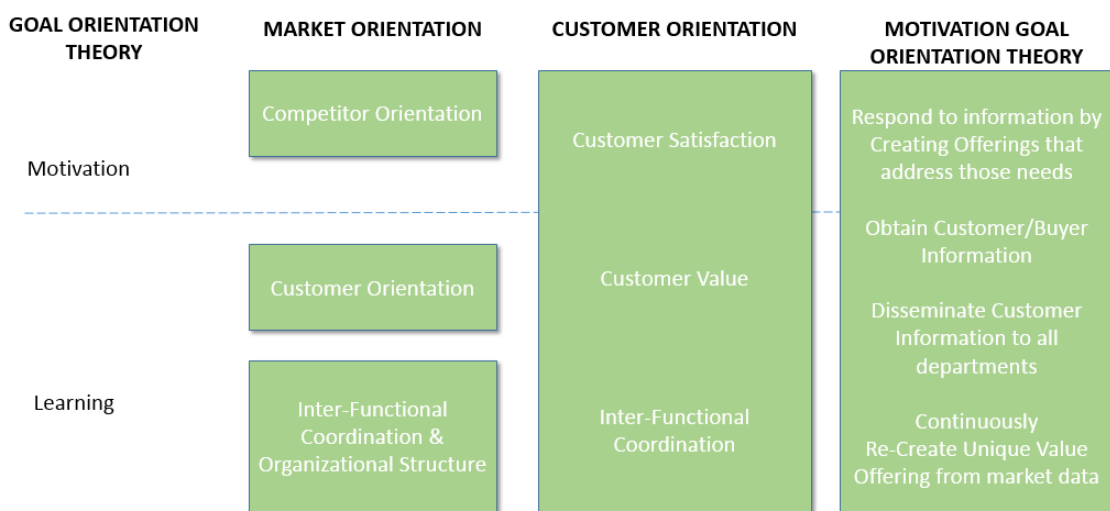
Based on the marketing concept and work by McKittrick, (1957), Narver & Slater, (1990) and Kohli & Jaworski, (1990) revived interest into marketing concept (Hau, Evangelista,

& Thuy, 2013). The former focused on the use and understanding of market intelligence to create value for the consumer and the latter emphasised the internal activities associated with gathering of the information to assist in predicting future buyer needs and wants (Q. Wang et al., 2016). Both authors however agreed that customer orientation signified a company's external positioning in relation to the consumers (Kohli & Jaworski, 1990; Narver & Slater, 1990). Narver & Slater, (1990) conceptualised customer orientation as a component of market orientation along with competitor orientation and inter-functional coordination. They achieved this by establishing the validity of the constructs measurement units and determined that customer orientation and the other components were positively related to performance as measured by ROA. Narver & Slater, (1990), found that customer orientation and competitor orientation involved obtaining information about the buyers and assimilating it through the organization; the third aspect however, involved the coordination of information beyond the marketing department (Narver & Slater, 1990). Customer orientation is regarded as the most fundamental component of a marketing orientation, Deshpandé, and scholars (1993) as well as Q. Wang, and his fellow scholars (2016) stated that it suggested a skewness of market orientation towards customer orientation. The purpose of the study was to link the market orientation with business performance, for the intention of providing business practitioners with guidance on components that to implement the orientation.

Similarly, (Kohli & Jaworski, 1990) conducted an investigation into the construct of market orientation in order to contribute to the development of a theoretical foundation, based on empirical research and assist in the definition of the. Through an investigation into previous literature on the concept and its antecedents, supplemented with field interviews the study provided evidence of the specific factors that are influenced by management, that either nurture or prevent a market orientation (Kohli & Jaworski, 1990). In a bureaucratic environment such as government departments, communication with junior staff would occur if management believed in and are willing to adapt as required. This would create an environment of experimentation, supportive for failures, managing of business units transactions would foster connectedness rather than conflict (Kohli & Jaworski, 1990) it was uncertain how they measured the construct. Where Narver & Slater, (1990) delineated the construct into three separate components, in the study by Kohli & Jaworski, (1990) it was not clear how they measured the construct, therefore the robustness of the study conducted was uncertain. Recognising the quality issues associated with the former study they sought to address improve the quality of their earlier investigation (Narver & Slater, 1990). They succeeded by linking the specific to the antecedents of top management, inter-departmental dynamics and organisational

systems. The findings indicated that top management emphasis on the strategic orientation through regular communication, risk taking in terms of developing and introducing new innovations in response to information and that interdepartmental connectedness appeared to behave as a moderator for between MO and profitability (Kohli & Jaworski, 1993). The author though is uncertain whether they contributed to theory building because different terminologies were used when research should have focused on unifying these terms. Below is a presenting the relationship of the construct to goal orientation. Figure 7: Relationship of Customer Orientation to Goal Orientation Theory .

Figure 7: Relationship of Customer Orientation to Goal Orientation Theory



2.8.3 Clarifying the difference between Customer Orientation & Market Orientation

A market orientation and its association to financial performance is well documented, but in contrast the marketing concept of customer orientation is under researched (Brockman et al., 2012; Tajeddini, 2010). As mentioned previously, some academics regard the terms customer orientation and market orientation synonymous but customer orientation is the learning goal orientation of the construct of market orientation. Kohli & Jaworski, (1990) presented market orientation as an organization wide response of gathering and obtaining information on customers, therefore it can be considered as generating market intelligence, which speaks to a scientific process utilized to obtain information. Therefore market orientation refers to the actions undertaken to implement a customer orientation, as well as behaviours and internal company culture to support the actions (Grinstein, 2008; Kohli & Jaworski, 1990; Narver & Slater, 1990). The quality of the market research conducted, scholars propose, is a determinant of the success for this orientation, as

opposed to customer focus, which is based on the subjective collection of information - customer opinions (Kohli & Jaworski, 1990, 1993). Considered one of the premier researchers into the topic, they provided an operational definition and a framework for future research. A number of studies have revealed a positive relationship between MO and business performance (Brockman et al., 2012; Grisseemann, Plank, & Brunner-Sperdin, 2013; Hult & Ketchen, 2001; Kohli & Jaworski, 1993; Narver & Slater, 1990; Slater & Narver, 2000; Q. Wang et al., 2016; Zhou, Yim, & Tse, 2005). They developed a foundation for the construct, specifying certain conditions that created an environment for profitability.

Customer orientation was a behaviour, a norm, a belief, commitment, value and characterises an organisations culture Deshpandé and fellow researchers, (1993) first referred to as organizational cognition, and posited as a set of beliefs that puts the customer interest first.

The last factor that fosters market orientation is the internal organizational structure as well as the associated rewards systems to measures such as customer satisfaction and intelligence gathered. Whenever certain factors were evident in the business environment the reverse was observed. These conditions identified by Kohli and Jaworski are:

- Stable market preferences
- Limited competition,
- Technologically turbulent industries and
- Booming economies market orientation and business performance may have a weak correlation (Kohli & Jaworski, 1990, 1993).

Their findings indicated that specific factors that related to MO that are within the control of managers and therefore are easy to implement. The weakness with the findings of the study was that it was not generalizable to a larger population because the sample consisted of top managers in a single organisation; therefore the study was vulnerable to respondent bias. The study was repeated by Slater & Narver, (2000).using a more diverse population group of product and service firms active in a variety of industries Therefore market orientation is about creating, organizing and digesting customer information and the customer orientation focuses on using the information gathered to make decisions and design offerings that create superior value. Research by Gatignon & Xuereb, (1997) revealed that an organization with a strong customer orientation has the motivation and ability to identify and respond to user needs. As a result it is posited that the customer segment information obtained through this process is more thorough

and can better produce customer satisfaction, in comparison to organizations that are not focused on the customer. Therefore as supported by literature customer orientation is focused on directing activities towards customer satisfaction (Brockman et al., 2012).

2.9 Emergent Themes

As stated before, emergent themes refers to the different constructs of a theory identified in literature and applied by firms as a means to achieving the orientation. Research shows that intangible assets have become of particular importance for value creation, economic growth and performance indicators (Fornell et al., 2016; Katsikeas, Morgan, Leonidou, & Hult, 2016). Customer orientation was defined by three concepts identified from literature; customer satisfaction, customer value and organizational aligned designed to serve a buyer. These represent a firm's alignment to customer orientation as a strategic intent. Customer satisfaction speaks to the goal of a firm that engages in customer orientation, customer value is motivated by factors within the external environment, however the significance of the internal environment as it related to a customer orientation in business philosophy would be neglected if organizational alignment was not briefly described.

2.9.1 Organizational Alignment

Organizational alignment or inter-functional coordination was one of the three constructs of the market orientation (Kohli & Jaworski, 1990, 1993; Narver & Slater, 1990; Slater & Narver, 1994). Inter-functional coordination has become important as the changing needs of customers necessitated the involvement of all departments, in the customer relationship (Rapp, Beitelspacher, Schillewaert, & Baker, 2012). Each organization has procedures in place that may not necessarily support the creation of customer value, but may be in use because of apathy, lack of motivation to change how activities are carried out (Woodruff, 1997). Therefore, coordination of all the physical and intellectual firm resources, to deliver value becomes important. Rapid changes in the external environment means that customer needs and wants are equally evolving at a rapid pace, and these changes requires that companies have the capability to respond quickly, which required advanced inter-functional coordination (Rapp et al., 2012). The greater the integration among business units, the easier it was to respond or adapt to buyer needs, the faster and more accurate the communication between colleagues, thereby reducing the probability of misinterpretation. When employees are in close proximity, informal networks were created and shared goals reduced reaction times and improved problem solving capabilities (Rapp et al., 2012). According to Day, (2006) organizational alignment was concerned with understanding a consumers value chain and predicting how it will evolve in response to internal and external pressures. Therefore, all aspects

of the value chain including its evolution, provides an opportunity for any individual in any function, to create value for the buyers (Slater & Narver, 1994). Porter expressed this in relation to competitive advantage:

“Every department, facility, branch office and other organizational unit has a role that must be defined and understood. All employees, regardless of their distance from strategy formulation process, must recognize their role in helping a firm achieve and sustain competitive advantage.” - (Micheal E Porter, 1985, pp. 16–17)

In order to achieve this, firms would need to develop structures that sustain a number of activities associated with customer orientation, and provide a framework for customer performance outcomes. Amazon and FMCG companies have achieved multi-stream approaches to satisfying customers. The benefits aligned to literature include responsiveness to the market created through dexterity of small multifunctional teams, customer satisfaction sustained by minimal time to market, value generated by cross – functional interactions that resulted in improved operational efficiency (Slater & Narver, 1994). The study by Rapp and his associates (2012) revealed that inter-functional coordination influenced customer performance outcomes such as satisfaction and loyalty, therefore customer orientation and inter-functional coordination are related to financial performance.

2.9.2 Customer Value

Marketing philosophy has evolved over time; recognizing that the focus of all marketing efforts is the customer Drucker, (1954), initiated by the change from sales focus to a customer satisfaction focus (Kotler, 1967; Sorescu & Sorescu, 2016). Thought and practise then evolved from satisfaction to customer loyalty, and customer loyalty to developing value-generating relationships with customers (Kumar & Shah, 2009; Slater & Narver, 1994). This was motivated by the knowledge that customer loyalty may not explicitly contribute to long-term firm performance (Kumar, 2016). This represented transition from transactional interactions with customers to relationship focused interactions with consumers (Kumar, 2016). Customer satisfaction alone is not enough to create superior financial performance; the contribution of customer value or rather understanding the process and relevance of creating value has become significant (Boso et al., 2013; Webb et al., 2011). Value chain relationships in the last decades have changed to cooperative relationship between suppliers and customers, for instance Advocate Health Care Systems in Chicago, established working relationships with its physicians to develop protocols to reduce cost of treating patients with chronic conditions

(Besanko, Dranove, & Shanley, 2013, p. 235).

The original proposition regarding the antecedents of customer orientation, regards customer value as a fundamental component (Narver & Slater, 1990); its importance is based on the recognition that delivering value is dependent on internal capabilities of the firm, which is its competitive advantage (Slater & Narver, 1994). In an effort to capture the full scope of value earned by a firm, managements interest has progressed from loyalty to a concern with customer profitability” and “profitable loyalty” (Kumar, 2016). Although Terho, Eggert, Haas, & Ulaga, (2015) investigated the role of a sales persons customer orientation and value-based selling, translating sales strategy to performance, because a customer orientation firm is predisposed to meet a customer’s needs, the following can be inferred: the relationship between customer orientation and customer value is best defined as the “degree to which a firm will engage with the customer in order to craft a market offering that communicates to the buyer – firm, the seller – firm’s dedication to their profitability” (Terho et al., 2015).

According to Narver & Slater, (1990) there are two ways that value is created for a customer (1) decreasing a consumers costs in relation to the benefits and (2) increasing the benefits to the customer in relation to the costs incurred by that customer. This requires a comprehensive understanding of the cost and revenue dynamics of the customers value chain, including the constraints, both economic and political that impact that value chain (Narver & Slater, 1990). As a result the supplier is more inclined to determine who future buyers might be and what they could want now and what could satisfy them in the future. This long-term view, can only be sustained by maintaining customer relationships. Srivastava, Shervani, & Fahey, (1998) proposed that customer relationships can be conceptualized as market-based assets, therefore to optimize asset use firms need to optimize the capital invested in the relationships and managing business volumes for economies of scale (Nenonen & Storbacka, 2016). However as the marketing field advances towards a more tangible measurement of this relationship, customer equity is considered a measure of these customer relationships (Nenonen & Storbacka, 2016); alternatively is defined as the sum of customer lifetime value. Kumar & Shah, (2009) established a link between customer equity and shareholder value created (Kumar, 2016).

Creating value for a customer is about using information gathered regarding customer needs and designing a product that meets those needs which is closely related to a company’s innovative capability. This requires a company with a strategic commitment to providing value for its consumers (Slater & Narver, 2000). The corporate culture would

foster a learning goal orientation where (1) inter-departmental learning about the customers' needs - expressed or not - and competitor strategies and abilities is the focal point, (2) exploiting the learning through coordinated inter-departmental action (Deshpandé et al., 1993; Narver & Slater, 1990; Slater & Narver, 2000). Generating superior value then more than just about understanding the customer. It is continuously evaluating the threat of the principal competitors in terms of future strategic intent and value capture abilities and obtaining knowledge on that competitors long-term strategy and internal capabilities as well as the short-term strengths and weakness (Özşahin, Zehir, Acar, & Sudak, 2013). The process of predicting competitor decisions and actions – value capture and creation under competition - has resulted in a growing body of scholarly work in strategic management referred to as “value capture theory”, which uses game theory to build an understanding of company performance in a market environment (Gans & Ryall, 2017).

2.9.3 Customer Satisfaction

As stated before customer orientation is an internal objective that a firm decides to undertake and leads to the firm changing its behaviour and systems to serve the customer, the outcome would be customer satisfaction through various mechanisms such as products, after-sales services or other services that specifically meet a customer's needs (Brockman et al., 2012). Customer orientation is defined as a behaviour driven by the organisational motivation to meet a buyers needs and wants (Kohli & Jaworski, 1990; Narver & Slater, 1990). Customer satisfaction is not a measure of a firms product offering only of an individual assessment of a single transaction, but is a fundamental indicator of customer orientation because it is connected to behaviour and the economic consequences caused by that internal behaviour (Anderson, Fornell, & Rust, 1997). Building on the work by Kohli & Jaworski, (1993), the connection between customer orientation and customer satisfaction was established during the conceptualisation of the orientation (Grisseemann et al., 2013). It was hypothesized that the ability to monitor and respond to customer requirements resulted in the subsequent delivery of superior value and that, it led to increased satisfaction, which is a non-financial measure of performance (Gatignon & Xuereb, 1997; Tajeddini, 2010). The consequence of satisfaction is sales and increased market share which relates to financial performance (C. H. Wang, Chen, & Chen, 2012). An added benefit is increased loyalty, which is a mediating element between customer satisfaction and long-term financial performance (Anderson, Fornell, & Mazvancheryl, 2004; Bolton, 1998; Fornell et al., 2016; Ittner, Larcker, & Taylor, 2009; J.-Y. Lee et al., 2015; Mittal, Anderson, Sayrak, & Tadikamalla, 2012).

The centrality of customer satisfaction for business' is of great interest to academics and marketing specialists (Kumar, 2016). Although researchers have been cautious about viewing the term as a variable of financial performance, there has been numerous studies into customer satisfaction as an outcome measure for an organization (Anderson, Fornell, & Lehmann, 1994; Anderson et al., 2004, 1997; Fornell et al., 2016; Mittal et al., 2012; Ngobo, Casta, & Ramond, 2012; Sorescu & Sorescu, 2016). Some scholars however argue that customer satisfaction does not yield a competitive advantage. However, what is clear is the multi-facet benefits of customer satisfaction as a measure of success and the multi-faceted approach to determining performance benefits. Using COMPUSTAT data, hierarchical Bayesian estimation and a longitudinal study of the ACSI database, customer satisfaction and two aspects of future cash flows, namely growth and stability, were connected and the study revealed that satisfaction increased future cash flows by reducing variability (Gruca & Rego, 2005). According to Anderson and his fellow researchers (1994, 2004) customer satisfaction can be used as a predictor of future cash flows because of its forward looking information capability. This is linked to what is known as the information hypothesis, which proposes that if the market is fed with relevant and reliable information, then three benefits are attained (Fama & Laffer, 1971; Ngobo et al., 2012). These include the reduction of information asymmetry, which improves decision making; reduced uncertainty means less risk for investors and improved trading profits because transaction costs are reduced (Ngobo et al., 2012). This however assumes the market is rational and can always interpret the information received, can determine the implications of using the information, thereby reduces uncertainty and lastly, that loyal or satisfied customers do not speak negatively of firms. Research has indicated that in some instances satisfied customers do also bad mouth companies that they are loyal to (Anderson, 1998; Parthasarathy & Forlani, 2010), but the degree of negative marketing varies. Another benefit to customer satisfaction related to customer orientation is that it influences behaviour that allows firms to maintain and increase revenues (Ngobo et al., 2012; Roland T. Rust, Christine Moorman, & Dickson, 2002). These are, increased cross – selling (Verhoef, Franses, & Hoekstra, 2001), repeat purchases (Bolton, 1998) and word of mouth (Anderson, 1998). As a result, because of the stable consumer base that customer satisfaction establishes, future transaction costs and cost of attracting new buyers are lowered (Ngobo et al., 2012).

2.10 Goal Orientation Theory and Firm Performance

A number of studies have been performed, examining the different goal orientation and the influence on organizational performance. Some of the studies expanded to include multiple orientations, elements and industry types. Che-Ha, and his colleagues (2014),

researched the influence of industry types, whether manufacturing or services, on goal orientation and performance. The results of this investigation revealed that the financial benefits of goal orientation accrued the most to the service industry, with the organizational capabilities of customer orientation and innovativeness (exploratory orientation) supporting the study on Customer Co-Creation and an exploration orientation (Khanagha, Volberda, & Oshri, 2017). The study however, did not consider the effect of market types, such as emerging and developed markets, specifically the impact of the economic elements on goal orientation. The study by Gupta & Batra, (2016) addresses this gap and is important for another reason. Using a strategic management model created in a developing economy they proved the positive relationship between entrepreneurial orientations and performance, in an emerging economy. Different goal orientations were investigated in the study by Boso, Story & Cardogan (2013), aligning boundaries of entrepreneurial orientation and marketing orientation, the two-goal orientation to a high degree. The evidence suggests that when social and business network ties are well developed, financial performance was most evident. As a personal predictor of performance, Chi & Haung, (2014) theorized that through directing a team's goal orientation and group affective tone, Transformational Leadership was positively linked to team performance. Furthermore, the strength of the relationship between company performance and the goal orientation was investigated in the study by (Engelen et al., 2015). They argued using the resource-based view of the firm that transformational leadership behaviours moderated the performance – entrepreneurial orientation relationship. With regards to supply chain integration operational coordination and information sharing, affected operational performance, however, coordination was the only influencer for business performance (H. Liu et al., 2013).

To further establish the link between goal orientation and firm performance, the author would like to argue that performance is a function of managing the balance sheet and the customer; however there had been very little integrated studies into both perspectives. There has been a large body of work dedicated to justifying the connection between customer orientation and firm performance (Lee, et al. 2014; Kumar et al. 2008; Shah, et al. 2006) and contrastingly the concept of profit alignment was under researched. As a result there is a gap in literature combining or contrasting both these views. The purpose of this study was to draw connections between these related but separate streams of work in strategic management and to hopefully add to literature. Recently, a shift in company identity has occurred from solely profit making centres to identities that have a greater role in society, such as serving customers. Taylor, (1947) and the earlier works of Coase, (1937), portrayed firms as purely seeking economic performance, however the more recent works of Drucker, (1954), challenged this notion

by introducing the concept of noneconomic functions of a firm (Mayo, 1933; Barnard, 1938; Roethlisberger & Dickson, 1939). Scholars in economics and finance, who focused on money, have tended to view the exploitation of resources to achieve maximum financial returns, as the purpose of business (Jensen, 2002). As a result the measure of performance is dependent on how a company measures success relative to the goals it set and intended to achieve. Organizational performance was an indication of the impact of changes in strategic direction and activities undertaken by companies to create shareholder value (Kaplan and Norton, 2001). The modern business environment was now dependant on performance management systems in order to monitor and analyse whether objectives of a company are met. Strategic Performance Management Systems (SPMS) are implemented in organizations as solutions to support the decisions making process by gathering and expounding on information in order to remain competitive (Vuksic, Pejic Bach, and Popovic, 2013). Revenue growth, cash flows and asset utilization capture the short-term impact of management's decisions and resource allocation (Kaplan and Norton, 2001) and non-financial measures capture variables that most likely influence the future financial performance of the company. Some of the non-financial measures include customer satisfaction, customer service, customer repeats and quality of products. A number of empirical studies have confirmed the relationship between strategic planning and achieved business performance (Rudd, Greenley, Beatson, and Lings 2008). It was for that reason that the author argued that irrespective of industry or sector strategic planning has an influence on business performance and that a performance management indicator, such as the accounting / financial measures are representative of how a company is a goal-oriented organism that interacts with its environment. The financial measurement tool that will be used is Return on Equity (ROE) because it was often used as an archetype of value created by company operations and share price appreciation over time and reflects a measure of the markets response to decisions and announcements.

Return on Equity (ROE), also known as Return on Net-Worth (RONW) measured how a firm used profitability generated by money shareholders have invested. Shareholders equity was a measure of a company's net worth. It was a measure of the funds that remained after all debt and creditors have been paid and was expressed as a percentage. It was determined by subtracting a company's total liabilities from its total assets. Another permutation was Share Capital plus Retained Earnings less treasury Shares. The formula accounts for the money that investors originally invested and income earned by the company that is not used during operations, i.e. retained earnings. Other elements of the principle are the total possessions of that firm and characterised the portion of company profit committed, as money owned by the company. The assets

includes both long and short-term assets such as retained earnings, share capital, other cash assets, assets that are not easily liquidated, immovable property. As a result, the formula represents how well a company used the money received from investors during operations activities. It was used by analysts who determined the financial health of a company and therefore it used as a measure of company effectiveness and performance.

2.10.1 Profit Orientation and Firm Performance

Three strategies that are adopted as part of profit seeking behaviour are (1) determining potential strategic conflict, (2) generating profit from resources and (3) buffering against competitive forces by controlling various mechanisms. Derived from the industrial organizational economics of Bresnahan, (1989) and Holmstrom & Tirole, (1989), a view gaining popularity is the strategic conflict school (Miles, 1993). Although it has not been transferred into strategic research, game theory is used to evaluate the effects of a particular decision. It determined that in oligopolistic industries, the impact of decisions is interconnected and therefore management should take actions that maximised returns within the boundary of specific parameters. This was viewed as a fundamental flaw that organizations are in danger of not taking action and that not all possible reactions can be sufficiently calculated. The resource-based view stated that profits are a function of dynamic capabilities rather than market positioning (Teece et al., 1997). This was achieved by the identified unique competences of a company and development of any additional competencies that could be considered valuable by the market. As a result the firm has an advantage and profits flow from this advantage (Miles et al., 1993).

2.10.2 Customer Orientation & Financial Performance

Several scholars have found positive correlations between the elements of the construct and organisational performance. Fornell and Lehmann (1994) indicated a positive impact on profitability because of the customer satisfaction created. Customer value creation and loyalty led to market share. Market share was defined as percentage sales generated by a business' market activity, therefore the scholars predicted that customer orientation led to sales conversion because of better alignment with customer needs, leading to improved positioning in the market. This resulted in improved financial gain for a company, and led to higher returns on invested funds, therefore there was a significant difference between financial performances of companies with a customer orientation than firms without. When observing the relationship between the antecedents of customer orientation and financial performance some proposed that customer satisfaction reduced an organizations operating costs, because customers are less likely

to bad-mouth the firm if its complaints are addressed satisfactorily, which therefore contributed to profitability (Anderson et al., 1997). Others argued that highly satisfied customers could accelerate and enhance cash flows, because they could be considered as market-based assets (Ngobo et al., 2012; Srivastava et al., 1998).

Chapter 3: Research Questions

Objective 1: Literature suggested that the strategic orientations (SO) of Profit Orientation (PO) and Customer Orientation (CO) report high financial performance for the firms engaged in those strategies over time (t). However, most of the studies conducted are qualitative studies that do not confirm this performance empirically and thereby it cannot be determined which SO out-performs which. Therefore this study would like to determine whether there is a statistical significance in results between the two portfolios of companies for each of the strategic orientations under investigation and to explore whether the two strategic orientations's studied are the potential reasons for the difference in performance.

Research question 1: Which Strategic orientation exhibits the most financial performance benefits between Profit and Customer Orientation.

Two sets of hypothesis are developed to test data. One for ROE and another for Share Price Appreciation.

H1^o: Customer orientation does not exhibit better financial performance than profit orientation, between the two strategic orientations (for ROE).

.

H1^a: Customer orientation will exhibit better financial performance than profit orientation, between the two strategic orientations (for ROE).

Alternatively stated the null hypothesis is:

H1^o: $PO.t > 0.5 > CO.t$

H1^a: $PO.t \neq 0.5$

H1^o: Customer orientation does not exhibit better financial performance than profit orientation, between the two strategic orientations (for Share Appreciation).

.

H1^a: Customer orientation will exhibit better financial performance than profit orientation, between the two strategic orientations (for Share Appreciation).

H1^o: $PO.t > 0.5 > CO.t$

H1^a: $PO.t \neq 0.5$

Chapter 4: Research Methodology

4.1 Introduction

This study aims to compare the financial returns of profit or customer orientated firms as defined previously, to determine which orientation influences the extent to which firms can generate competitive advantage – resulting in above average financial performance.

The leading school of thought in business maintain that the purpose of a business is to make money, all the decisions whether investment, financing or dividend are focused on maximising the profits to optimum levels. The implication is that every strategic decision that relates to new projects, acquisition of assets, raising capital, and distributing dividends are valued for its potential impact on profitability. The disadvantage of a profit focus strategic management goal is that it ignores the value and contribution of intangible benefits such as quality, image, technological advancements, which are inherent in a customer-focused business strategy. Therefore, recently schools of thought are emerging and have emerged propose that the purpose of firms is to create value and addresses the contribution of intangibles. This value can be monetary or social or environmental. Consequently, the field of strategic goal orientations has increased its scope to include new orientations such as customer orientations, technology orientation, entrepreneurial orientations, non - profit orientations to name a few orientations that have found prominence in the last 25years. They indirectly create assets for the organisation that could have a long-term financial impact. The scholarly debate has shifted towards the search for more in-depth understanding of goal orientations and in particular, the mediating and moderating factors that play a part in above average returns. As an example is profit objective results cause operational inefficiencies which inadvertently leads to lower financial performance and higher opportunity costs. Customer satisfaction, the value created, customer commitment, after-sales service are some of the moderating factors that are hypothesised to lead to return customers thereby leading to not only above average returns but sustained and guaranteed economic performance. However, higher levels of customer engagement mean a potential loss in quality or risk of improper customer segmentation and therefore a dilution of product or service quality.

Through quantitative analysis of secondary data, this study attempts to establish whether there is evidence of superior financial performance on the part of S&P 500 companies implementing profit orientations as compared to their customer orientated peers'. Basic assumptions associated with the methodology imply specific beliefs about the nature, understanding and process of acquiring knowledge and reality, and therefore have implications for methodology, reality and the role of the researcher. Regarding the

methodology, the primary assumption is that one can measure/code the phenomenon under investigation; that public results or information represent reality. Therefore the letters to shareholders or CEO letters is representative of the decisions by top management of firms on strategic orientation. Another assumption of this study published financial information is truthful and represents the outcomes of implementing the strategy; with regards to knowledge, differences are attributable to hypothesised inferences that are comparable over time, against specific norms. As previously stated, other studies into the phenomena have been qualitative investigations to ascertain the existence of and indirectly to link the factors to performance, rather than establishing this connection empirically. As a result of this short-coming a time series, analysis of an equally weighted portfolio using the style engine similar to that developed by (Muller & Ward, 2013) was considered most appropriate for the study. Time series is a sequential measure of an observable variable at specific time intervals. It is used to either forecast (predict) future knowledge, understand the phenomenon underlying the measures and to describe the critical features of the series. Presented below is a high level over view of the process followed.

- **Research Philosophy**
 - Pragmatism
- **Research Approach**
 - Deduction
 - Exploratory and Explanatory
- **Research Strategy**
 - Historical Company Documents – Letters to Shareholders
 - Archival – Financial Data
- **Research Choice**
 - Mixed Method weighted towards Quantitative
- **Time Horizons**
 - Cross - sectional – Letters to shareholders
 - Longitudinal - Financial Performance
- **Research Techniques and Procedures**
 - Data Collection and Analysis

- Data Collection and Time Series Analysis

This research will focus solely on understanding the phenomenon of the two different SO. Therefore the methodology is a quasi-experimental design used in previous research to test for association between SO and superior financial performance. According to economic theory and other research, firms that exhibit strong accounting based financial results should, in turn, demonstrate better investor performance (Muller and Ward, 2013). As a result, corporate performance was measured through accounting-based performance measures of ROE as an internal measure and share appreciation, as an outward-looking market-based measure of performance. As the study sought to present evidence of the financial impact of the orientations through recorded past performance, ROE and share appreciation are considered relevant measures for the study.

4.2 Research Design

Research design refers to the project plan for a study and provides the strategic framework that will be utilised as the method to collect data to answer the research questions (Creswell, 2014; Leedy, Newby, & Ertmer, 1997, p. 195). The researcher followed a pragmatic philosophy to the research, and as a result, the study was driven by research questions and objectives. (Saunders & Lewis, 2012)) Distinguish between two critical research methods, the qualitative and quantitative approach. It is advised to use a qualitative approach when the research problem is uncertain and requires exploration or when researching phenomena. On the other hand, in research that aims to describe the relevant characteristics of observed phenomena accurately, researchers employ a quantitative – descriptive approach. A mixed-methodology strategy is used to determine the association between the variables of financial performance and strategy, specifically the study used experimental and archival research. Historical company records of a known population were examined to decide the orientation of the firms and the data collected was used to observe the changes in the dependent variable caused by a change in the independent variable. (Creswell, 2007, 2014, p. 211) definition of mixed-methodology whereby collection and analysis of data in the first phase contribute to the results of the second phase of collection and analysis of quantitative data. This research used the first phase to identify the dimensions of the two strategic orientations's from the letters to the shareholders to form two groups and an experiment conducted on the financial data of the two groups. According to the scholars that are developing this research methodology, studies conducted using this process customarily weight towards either qualitative or quantitative (Creswell, 2007). Due to the methodological choices made this research is primarily quantitative and therefore weighted towards the latter. A quantitative approach was chosen to establish the associative relationship, to test the

hypothesis and to satisfy the objectives of the research. Creswell stated that a mixed method may or may not be implemented within an explicit theoretical framework however as discussed in Chapter 2, the technical scope is strategic orientation. The literature review further provides evidence of the benefits and suggested reasons for the positive association of both orientations to financial performance. The study was designed to corroborate and compare the association to a company's performance, reported in previous studies. A diagram of the strategy is provided below and is obtained from Creswell (Creswell, 2014, p. 270)

Figure 8: Research Strategy



There was no attempt made to prove causality between the selected strategic variables, as the relationships between variables are involved, and usually are affected and influenced by numerous internal and external dynamics. Unfortunately, the exact determining of these factors is beyond the scope of this research. For this research, the aim was to determine whether there was an association between the internal ratio of ROE and market focused share appreciation, to the two different orientations for companies listed on the S&P500.

The two dependent variables, the financial performance of individual companies' ROE per year and share appreciation lie on a continuum were tested against two categorical independent variables: the goal orientation of the company either a profit or customer orientation. This research aimed to determine whether there was any statistical significance between the profit generated by firms employing either of the two orientations.

According to (Saunders & Lewis, 2012), "a longitudinal study is the study of a particular topic over an extended period" (p. 124). (Saunders & Lewis, 2012) stated that "the main advantage of a longitudinal study is the capacity that it has to study change and development over time" (p. 124). Regarding the time periods for other studies referred to in this report, ranges vary from single year studies (Brockman, Jones, & Becherer, 2012; Matsuno, Mentzer, & Rentz, 2005) and three-year timeframes (Terho, Eggert, Haas, & Ulaga, 2015). (Wei, Yao, Jiang, & Young, 2013) developed research based on single and double period games. A 33-year timeframe was used by the authors (Katsikeas, Morgan, Leonidou, & Hult, 2016) to conduct research using a theory based performance evaluation. Fifteen years of audited financial statements were considered

adequate to perform the longitudinal analysis to measure the performance of stock returns (Fornell, Morgeson, & Hult, 2016; Tajeddini, 2010) and fourteen by (Sorescu & Sorescu, 2016). This research adopted a similar approach, a longitudinal study for a twenty-year period from 1996 to 2016. Timeframes longer than 15 years for time-series investigations are recommended by some scholars (Muller & Ward, 2013) and highlights the importance of examining the dynamic time-varying effects of factors (Kumar, 2016).

The overarching research design was deductive because the researcher sought to test a theoretical proposition from the literature that states the profitability of the two strategic orientations as superior. Therefore, by using a strategy that suited the investigation, the aim was to resolve the debate. The assumptions of this approach as defined by (Myers & Avison, 2002, pp. 60–61) are threefold:

- (1) there is a one-way relationship that can be identified and tested through hypothetic-deductive logic and analysis;
- (2) deductive reasoning can determine unilateral relationships that can be generalised and can predict patterns and behaviour,
- (3) lastly, if strategic orientations as actions can be deduced from certain principles and premises, then knowledge of the principles and premises ahead of time enables the prediction of activity.

Time-series data obtained from Thomson Reuters database - ROE and share prices - was analysed using a style – based engine to determine the comparative performance over time, for the two portfolios constructed. The starting date was 31 December of 1996, and the end date was 31 December 2016. Any firms not listed for the entirety of that timeframe or that delisted and relisted were excluded. Therefore the population size was consistent throughout the study time-frame. A total of 41 firms made the selection which allowed for two quintiles consisting of 20 firms categorised as PO and 20 as CO.

4.3 Data Collection

Published annual reports from the firms' websites and 10-K reports were obtained from each companies website and downloaded in PDF format. Only 5 of the firms from the sample selection did not provide annual reports and therefore letters from the CEO could not be acquired or studied. The remaining 85 including the two test company letters were loaded onto Google Drive for easier access by both investigators. The one researcher coded the letters and the other visually examined the letters with no prior knowledge of the subject letter. We examined the CEO and chairpersons letters, notes from the chairmen because research suggests that they provide some indication of firms' goal

orientations.

The researcher selected a sample based on the parameters of profit and customer focus, out of a population of the top 160 companies on the stock exchange. From the 85 firms listed on the exchange for 20 years or more, two groups were formed. To ensure external validity of this process, the researcher requested the same process to be repeated by a fellow scholar and a statistician, with the intention that the same companies will demonstrate the same characteristics and end up in the same portfolio, thereby establishing generalisability to the sample frame. Triangulation is described by (Saunders & Lewis, 2012) as the process of corroborating your research findings with a study using two or more independent sources of data collection. The purpose of triangulation is convergence and consistency (Greene, 2007, p. 100). Validity is the degree to which the interpretations and concepts have shared implications between the participants and the researcher (McMillan & Schumacher, 2001, p. 407), reliability, is the extent to which the outcomes of the research are independent of unintended conditions (Silverman, 2004, p. 285). All are concerned with ensuring the quality of the data collection.

85 letters were imported into Atlas.ti for coding, and this process will be described in-depth in the analysis section. The method used to determine the strategic orientations of the firms is a content analysis of CEO letters. Previous finance and strategic research to assess cognitive capabilities (Ocasio, 1997, 2011) and competitive actions taken by a firm (Marcel, Barr, & Duhaime, 2010) using this technique. Published chairman letters directly represent actions orchestrated by leaders of firms (Kiss & Barr, 2017). Mining managerial documents can provide valuable insight into the way decision makers view themselves, the firm and the environment that they operate in as well as how this perception compares with objective measures (Levine, Bernard, & Nagel, 2017). Content analysis is described as the process when any form of communication, including text or images, is subjected to a process of counting based on two criteria:

- Frequency of certain words, phrases and other linguistic sets
- Using an established coding framework designed to generate measurements from qualitative material

The risks associated with evaluating strategic orientations is that a company that recently experienced a financial loss could present as profit orientated, due to its inclination towards survival (P. K. Dutta & Radner, 1999; Oprea, 2014). Secondly, as research suggests the type of market influences the strategy employed, e.g. technology/medical, consumer goods market and therefore could bias perception of orientation.

For phase two, the study needed two sets of longitudinal data for the selected companies, ROE and share appreciation information from 1996 to 2016. Data obtained from sources that collect information for public use and not for specific purposes reduce the influence on the relevance and validity of the data (Cumming, Johan, & Li, 2011). Thomson Reuters database has expansive coverage and limits the possibility of missing data (Aitken, Cumming, & Zhan, 2015), it does not adjust the weights of the firms in its indexes for Regulated Investment Company (RIC) compliance (Thomson Reuters, 2015). The weighting of the firms in the respective indexes reflects the float-adjusted market capitalisation of the firms, therefore it is considered a reliable source. EIKON collects and maintains information related to the variables required for the study of listed companies. Reliability of the data collected required multiple sources of data namely, Eikon and Datastream database and McGregor BFA research domain for both financial results and annual reports if not provided on the company websites. The data were checked for errors and firms that formed part of the sample that had missing information was removed. By using two databases to obtaining financial statements and pre-calculated operational ratios it enabled the researcher to compare information for drastic inconsistencies. ROE's for the firms were confirmed, but unfortunately, neither database could provide daily share prices going back 20 years. (Muller & Ward, 2013) style engine database can be directly linked to current financial information from some exchanges around the world, including the S&P and therefore provided the daily closing share prices.

4.3.1 Population

(Saunders & Lewis, 2012) Defined a population as “the complete set of group members” (2013: 132). The population of relevance as demarcated by the researcher was all firms within the S&P500 that identified themselves as either seeking profit or customer focused; companies excluded from the study indicated that their strategic focus was both. Therefore a population share standard characteristics provides a boundary for a study and describes a complete group of entities (Saunders & Lewis, 2012; Zikmund, Babin, Carr, & Griffin, 2010). Therefore as stated above the population included all 500 companies that qualified annually to form part of the S&P from 1996 to 2016.

4.3.2 Sampling Method and Size

A sample is a subgroup of a population chosen for its representativeness to the whole, and the sampling frame or population is “the complete set of group member” (Saunders & Lewis, 2012). The initial population consisted of the 500 to 505 companies listed on the S&P annually for the past 20 years, which constituted the universe for the study. This

number varies, and in 2016 it was 505. Previous research suggests that only the top 160 firms contribute to 99% of the market capitalisation, the remainder has been shown to be too small and illiquid to add value to studies (Muller & Ward, 2013). Therefore the sample was reduced to include the most significant firms listed on the S&P. As a result endogeneity prevalent in accounting based and social science research (Chenhall & Moers, 2007) was reduced by not conducting a randomised selection process. To support the validity of the study sample the researcher used Thomson Reuters' Leavers and Joiners lists from 1996 to 2016 to filter out companies listed for less than 20 years. As a result survivorship bias was introduced and has the effect of skewing the performance results higher because of the removal of failed companies from the sample. The screening process resulted in 85 firms. The sampling method was purposive, restricted and judgemental. From the original group of 160 firms, 41 qualified under the goal orientations investigated however only the top 38 regarding market capitalisation ended up in the study. The sampling technique used is the referred to as a typical case, because the intention was to select what is referred to as a representative sample that does not necessarily need to be statically representative (Saunders & Lewis, 2012, p. 139).

4.3.3 Unit of Analysis

The unit of analysis defines what the "case" is about, the "who" and the "what" under investigation (Yin, 2012). (Saunders & Lewis, 2012) stated that a "unit of data is a predetermined piece of data" (p. 194) that one attaches categories. The unit of data or the unit of analysis for this research is cumulative ROE and daily share price appreciation as observed on the charted financial results. It is not specific to any industry and is the complex phenomena associated with the creating of financial advantage from the decision of profit or customer focus.

4.3.4 Dependent Variables – Company Financial Performance

This study tested for relationships between strategic orientation's of companies and financial performance as measured by accounting measures. Financial performance, therefore, is the dependent variable (Saunders & Lewis, 2012). As presented in the literature review above, company performance has been measured in many different ways, thereby distorting the generalizability of research outcomes. More specifically, specific studies measure accounting-based performance (measured through, e.g. ROA and ROE), whereas others solely focus on market-based performance (e.g. stock market performance). Although no "best" single variable to measure performance has been established, recent literature suggests that both accounting and market-based measures should be used (Barnett & Salomon, 2012). As this study seeks to establish the impact

over time of strategic orientations's and thereby provide evidence of the suitability of strategic orientation to achieve improved financial performance, the study uses the market-based measure ROE, sometimes referred to as Return on Net Worth (RONW).

4.4 Data Analysis

The data analysis was conducted in three phases. An inductive approach was used to determine the strategic orientations of the companies that formed the sample. Deductive reasoning was used to answer the hypothesis and together both methods to resulted in the objectives of the study being met.

4.4.1 Coding CEO letters

The purpose of coding is to arrange things in a systematic order, to make something part of a system or classification (Saldana, 2009, p. 8). That was the purpose of coding the CEO letters to order the firms in the sample frame for a classification or group. The coding process was conducted in two phases; phase one to get used to coding and phase two to verify. However the results in phase were used going forward, only those 40 companies were subjected to a second and third round of coding for 2007 and 2002. seven year intervals were chosen for two reasons, (1) time constraints (2) as the researcher read the letters it was observed that five to seven years was the timeframe that CEO occupied a position on the board, therefore assuming the same CEO would not change strategy except with a drastic change in the market, that interval was used going forward. The results of the first phase of attempt resulted in a sample of 78; the second attempt resulted in a sample of 85 firms. The process conducted twice prevented the misclassification of firms. During the initial coding process, the letters were coded against the strategic orientations only (profit and customer) and additional strategic orientations such as shareholder orientation, innovation orientation and entrepreneurial orientation. However during the second phase the researcher noted that it would work better to classify according to the constructs because as the reading was occurring the constructs for the two orientations studied were what came to mind. The first attempt also exposed the necessity for a code 'none' that incorporates any additional strategic orientations identified. The necessity of coding according to the constructs was revealed and therefore and in turn refined and focused the coding process, count of themes that were observed. As the process continued the reader realized that any firm that started y reporting on financials was classified under profit because of internal bias' therefore going forward the reader noted the reporting and did not consider it an indication of strategic orientation. Words such as our goal, our commitment, we strive for, our aim is and out top priority as indication of intent.

Content analysis used is described in the book by (Friese, 2012) included identifying quotations and assigning the predetermined code, associated with the themes explored in the literature review. In order to test the verification process two master letters were used as samples because of reported alignment to the strategic orientations, these were Amazon (Customer Orientated) and Anadarko (Profit Orientated). These two firms did not form part of the sample because they have been on the S&P for less than 20 years. (Appendix 2: Master CEO Letters). To illustrate the appropriateness of the letters as masters, and to indicate strategic intent of the firms, text included the following found in the respective firms' annual reports letters to shareholders:

“True Customer Obsession

There are many ways to centre a business. You can be competitor focused, you can be product focused, you can be technology focused, you can be business model focused, and there are more. However, in my view, obsessive customer focus is by far the most protective of Day 1 vitality” – 2016, Annual Report, Letter to Shareholders.

Day 1, is described by Jeff Bezos, the current CEO of Amazon, as the opposite of firm irrelevance or statis. In contrast, Anadarko's CEO reported the following:

“During 2016, we focused on preserving value and positioning for the future and frankly, we achieved what few thought we could. First, we lowered our cost structure by 800million dollars....As we look ahead, we expect to continue to demonstrate financial discipline by investing in cash flows, enhancing our wellhead margins and driving further efficiency improvements across our operating areas.” – 2016, Annual Report, Letter to Our Shareholders.

Chapter 5 will expand further on the themes identified in the two master letters and illustrate their relevance to the SO's. As stated before the second effort of coding used constructs provided by literature. (Saldaña, 2016, p. 71) advises adapting coding method to answer the question and meet the objectives of the study. The classification codes used to evaluate the letters where the constructs of each orientation, provided by literature. Presented in the table below are the themes and the sub-themes for the constructs'. While some constructs were explicitly stated and easy to identify others were more implicit and more laborious to categorise. Pre-defined categories were hard-coded into ATLAS.ti and then classified into two families, PO and CO families.

Table 1: Constructs used to categorise letters to shareholders

PROFIT ORIENTATION	CUSTOMER ORIENTATION
Profit Maximization - Production decisions - Margin decisions Scaling Decisions Pricing Decisions Cost Management Practices	Customer Value - Customer relationship - Customer equity Inter-functional Coordination Down-stream value chain management Customer Satisfaction

The two strategic orientations provided classifications for the document families and organised the letters into two groups for easy exporting and referral. The central questions kept in mind during the process are adapted from (Saldaña, 2016, p. 22):

- What specific strategies do they use?
- How is what is going on here similar to what I have noted in previous letters and how are they similar to the constructs from literature?
- What is the significance of the statement in terms of the strategic orientations investigated?
- What category can this information be classified under? Why did I include them?

The process described is similar to that observed in patent analysis patent documents and strategy research (Tseng, Lin, & Lin, 2007). (Saunders & Lewis, 2012, p. 194) state that this approach is used in deductive approaches and literature should provide the relevant categories.

4.4.2 ROE Analysis

The accounting measure of ROE is reported for time period of one year. Therefore due to this limitation in the data, annual values a two sample t-test was conducted on the values. However, as an internal accounting measure ROE added another dimension to the analysis of performance.

Table 2: Construct frequency count distribution

CODE	TOTALS:
Cost management practises	63
Pricing Decisions	2
Scaling decisions	32
Profit Maximization	88
production decisions	22
margin decisions	22
Down Stream Value Chain Management	17
Inter-Functional Coordination	49
Customer Satisfaction	10
Customer Value	144
customer relationship	5
customer equity	3
ACSI	0
None	64

4.4.3 Quasi-Style Engine

Developed by (Muller & Ward, 2013) the style engine is a Microsoft Excel-based model with Visual Basic for Applications (VBA) allowing for easy manipulation of data from Access database, where it was sourced. The engine was parameterised to enable easy manipulation of the settings and to define styles. However, due to the boundaries of the study only two styles could be generated from the engine therefore only two portfolios were created. A time series analysis was conducted from 31 December 2002 to 31 December 2016.

Using the 38 companies from our sample two equal weighted portfolios were constructed. As noted by Muller and Ward, (2013), the usual review period or holding period for three months therefore at the beginning of each quarter the engine was set to automatically allocate an equal amount of funds in both portfolios. At the end of each quarter the value of the portfolio was retained and accumulated with each quarterly iteration until 31 December 2016. On a daily basis using prior data from the sample, the return was calculated including any dividends that were declared, in each portfolio from a base of 1.0. The transaction costs that are normally associated with rebasing to 1.0 were ignored as they are normally considered immaterial (Muller & Ward, 2013).

The sampling window for each data set varied from year to year but was within the range of 11:30 pm to midnight Eastern Time Zone after the markets had hypothetically “closed” and therefore the results reported are more stable. The length of the window was

adjusted to accommodate significant changes in share price movement. The information for both datasets represents an aggregate of the individual results of each firm.

Two univariate portfolios and the cumulative results were converted to graphs because a time series graph is a visual representation of performance and enables the observer to understand which strategy out-performs the other. Recognising that business activities, such as decision making are directly related to time, researchers acknowledge that time series analysis is a necessary tool for dynamic decisions making in a business environment (Arsham, 2003; Bharadwaj, El Sawy, Pavlou, & Venkatraman, 2013; Hartmann, King, & Narayan, 2015; Van Gelderen, Frese, & Thurik, 2000).

To avoid look-ahead bias that is prevalent in financial data based on financial statement that are released 3 months after the financial year-end, a lagging approach was applied to the variables.

4.5 Limitations

Limitations relate to that element in the study that could affect the study that the researcher cannot control. Most times it impacts the generalizability of the study to a larger group. It refers to restrictions in the sample, the analysis, the instruments used, and time constraints. Below the limitations are reported in this order:

- Listed companies, means only large corporates included in the sample and do not consider companies that exhibit positive returns to profit or customer commitment, that is unlisted. The lack of readily available public information on private companies' and the relative economic contribution of firms to the market resulted in the researcher discarding the proposal to use listed and unlisted firms.
- Increasing the number of data collectors would have improved the sampling methodology. Although this was the preferred process by the researcher, several statisticians refused to read, citing a preference for numbers. Secondly, the editors requested to code all the letters to the shareholders cancelled within the last month of the study, and there was no time to replace them. Therefore the number was reduced to two and will impact the objectivity of the classification of the firms into either orientation.
- The researcher employed accounting measure that have been used in previous studies as measures of performance. However, accounting measures of financial performance are a limited view of performance as it does not encompass non-financial measures and therefore is not a holistic representation of firm performance. Future research can include non-financial measures as well.

- The CEO letters did not necessarily present the constructs as they are presented in literature and this could impact the results of the text analysis. Therefore the letters alone, do not seem to provide enough evidence of a firms' strategic orientation. Secondly, letters to shareholders are not audited or subject to regulation and therefore can be used to manage or manipulate views of the firm strategically.
- Time series is a simple visual representation of a trend or changes in the measure of interest, however, due to its nature it cannot provide insight into whether the changes or trend observed are the result of anything other than the intervention or the result of another factor.
- As the timeframe for the entire study was five months, the time frame to evaluate the CEO letters was limited. Not enough time was available to evaluate the SO of the firms to check whether they change over the duration of the study, therefore, the base year of 2016 was convenient for two reasons: Firstly, CEO letters dating back to 1997 for all the firms listed on the S&P are not available. Secondly, the accessible information was of poor quality and the nascent level of theoretical development of the two orientations in 1997, was at a nascent level. Therefore the study is conducted retrospectively, assuming that a change of leadership did not result in a change in strategy.

4.6 Conclusion

The primary goal of the study is to provide a foundation to assist further research in the strategic management field not just to assist with constructing augmented versions of existing theory but to aid in the predicting of occurrences. There should be a significant difference in profit generated by customer orientations to the goal of optimising profit

Chapter 5: Results

5.1 Introduction

The following chapter details the results from the various analysis, which we conducted on the sample frame while attempting to answer the questions this research posed and testing the hypothesis presented in Chapter 3. The sample frame description contains the sectors represented and the qualification criteria to gain insight into the firms investigated in this research. An initial analysis of the two variables provided information on the characteristics of each regarding the sample. The first section of this chapter will outline the descriptive statistics of the sample, then test the hypothesis using different statistical methodology and then have the conclusion of the chapter which summarises the results.

5.2 Exploratory Analysis

The master letters were used because of the explicit stating of the company focus as seen in the examples below.

“True Customer Obsession

There are many ways to centre a business. You can be competitor focused, you can be product focused, you can be technology focused, you can be business model focused, and there are more. But in my view, obsessive customer focus is by far the most protective of Day 1 vitality” – 2016, Annual Report, Letter to Shareholders.

Day 1, is described by Jeff Bezos, the current CEO of Amazon, as the opposite of firm irrelevance or stasis. In contrast, Anadarko's CEO stated the following that was considered cost management practises, margin decisions and production decisions.

“During 2016, we focused on preserving value and positioning for the future and frankly, we achieved what few thought we could. First we lowered our cost structure by \$800millionAs we look ahead, we expect to continue to demonstrate financial discipline by investing in cash flows, enhancing our wellhead margins and driving further efficiency improvements across our operating areas.” – 2016, Annual Report, Letter to Our Shareholders.

C1: Customer Value was a common theme in the Letter from the CEO's, it was either stated directly or indirectly. Where not articulating the intention to support clients in competitive advantage and accessibility of ones product to ensure easy transaction between the firm and its customer is also considered a substructure of customer value.

“Importantly, our focus continues to be squarely on delivering value for our customers and clients as a very dynamic marketplace continues to evolve both in the United States and around the globe...resulting in greater rewards for health care partners and further value for our customers as we better anticipate and meet these emerging needs” – 2016, CIGNA Annual Report, Letter to Our Shareholders, p. 7.

“The company’s Digital, Technology, Operations and Analytics practice is growing rapidly to support clients across industries. OW Labs, a technology and data service that helps clients achieve competitive advantages through the power of their data, is also expanding quickly and supporting our core strategy work.” – 2016, Marsh and McLennan Annual Report, Letter to Our Shareholders, p. 8.

“Changing customer preferences are driving our Mobile First strategy. Today, 60 percent of our retail banking customers use non-teller channels for the majority of their transactions. That’s up from 40 percent just three years ago. Clearly, customers want the convenience of secure, real-time, mobile banking and payments solutions.” – 2016, PNC Financial Annual Report, Letter to Our Shareholders, p. 4.

C1.2: Customer Equity is centred on building networks and supporting the customers to guarantee long-term connections between a company and the client.

“Our purpose drives us to focus on holistic project solutions in order to best meet the needs of customers. We are committed to creating experiences that help customers visualize a wide range of project possibilities as well as serving as a trusted advisor throughout those projects. We provide the products, services, knowledge, and expertise to ensure that customers achieve great results. In doing so, we are building trust and loyalty by empowering them throughout their project journey.” – 2016, Lowes Annual Report, Letter to Our Shareholders, p. 1.

C1.3: The importance of building Customer Relationships is related to the value of the customers in the future and therefore its relationship to the construct above is apparent hence the coherence of customer value is evident.

“Our people, stores and supply chain, combined with our customer relationships and willingness to change, provide the opportunity for us to continue to win with customers.” – 2016, Walmart Annual Report, Letter to Our Shareholders, Associates and Customers p. 2.

“Through the efforts of our 28,000 dedicated employees, we deepened customer relationships.” PNC Letter to Our Shareholders, Associates and Customers p. 4 .

C2: As stated before Customer Satisfaction is a difficult concept to define therefore the categorical stating of the drive to satisfy customers was considered as an explicit stating of the intention to.

“Importantly, our focus continues to be squarely on delivering value for our customers and clients as a very dynamic marketplace continues to evolve both in the United States and around the globe.” – 2016, CIGNA Annual Report, Letter to Our Shareholders, p. 7.

“those relationships and working to increase satisfaction drove strong results in all of our businesses.” – 2007, PNC Financial Annual Report, Letter to Our Shareholders, p. 7.

C2.2: Regrettably the ACSI was not mentioned by any of the firms and therefore was removed as a construct of customer satisfaction.

C3: Down Stream Value Chain Management involves at its core understanding and adapting not only to customer needs but cost pressures.

“We continued to put our customers at the center of all that we do. We concentrated on their priorities. We recognized their cost pressures. And we worked to anticipate how their needs might evolve in the years to come..” – 2016, Lockheed Martin Annual Report, Letter to Our Shareholders, p. i.

“At Lockheed Martin, we align our priorities with our customers’ priorities.” – 2007, Lockheed Martin Corporation Annual Report, Letter to Our Shareholders, p. 1.

C4: Inter-functional Coordination

“Importantly, our focus continues to be squarely on delivering value for our customers and clients as a very dynamic marketplace continues to evolve both in the United States and around the globe.” – 2016, CIGNA Annual Report, Letter to Our Shareholders, p. 7.

C5: None, it was important to present information without bias therefore the quotation below speaks to an alternative strategy that a firm associated with and indicated as primary focus, namely shareholder value and innovation.

“In 2016, we benefited from our ongoing focus on the three key financial pillars that we consider essential to maximizing shareholder value.” – 2016, CVS Health Annual Report, Letter to Our Shareholders, p8. Additionally John Deere, uses Shareholder Value Added (SVA) as one of its primary measure of success.

“SVA is the primary measure used in managing the company and making investment decisions.” – 2016, John Deere Annual Report, Letter to Shareholders.

“Our vision is fixed, clear, and ambitious: to make Abbott the world’s leading healthcare company in the markets in which we compete— the company that sets the standard in innovation, impact, and performance. To this end, we shape the company to achieve maximum competitiveness. To us, that means building significant and leading positions in large and growing markets. Two major strategic decisions in 2016 embody our intent in action.” – 2016, Abbott Laboratories Annual Report, Letter to Our Shareholders, p. 2.

C6: Profit Maximization

“Fifteen years ago, I was asked what I wanted my legacy to be. I said three things. First was that anyone associated with me whether they were investors, customers, suppliers, or employees could say they made a lot of money while I was here... check! The second was that we would be a go-to source for leaders of every stripe, but people would tend to stay here because they did well and could accomplish great things... check! The third was that I wanted to own my shares ten years after I left because the portfolio, process, and people continued delivering... and because we had selected the right successor. We will know for sure ten years from now, of course, but I’m really confident we got this one right” – 2016, Honeywell Annual Report, Letter to Our Shareholders, p. 3.

“We are pleased to report to you another outstanding year for Altria and its companies. We met our financial goals and achieved important milestones against an ambitious strategic plan. We also returned significant cash to you, our shareholders, strengthened our balance sheet, and improved our organizational culture and capability” – 2016, Altria Annual Report, Letter to Our Shareholders, p. 2.

C6.2: margin decisions are related to the operating margins of the firm and ensuring that those remain healthy.

“In the front of the store, we have focused on ways of enhancing the pharmacy experience and driving profitable margin growth for the enterprise.” – 2016, CVS Annual Report, Letter to Our Shareholders, p. 12.

“Further Structural Margin Improvement – Targeting 25% Operating Margin Exiting.” – 2016, Illinois Tools Annual Report, Letter to Our Shareholders, p. 2.

“I am very pleased with the excellent progress we’ve made to significantly increase our profitability. As a matter of fact, we’ve been able to expand our margins by more than 100 basis points every year since 2005.” – 2007, ThermoFischer Annual Report, Letter to Our Shareholders, p. 4.

C6.3: production decisions are clearly defined by the statement below from P&G as the construct supports top-line growth through balancing production and cost.

“We are focused on streamlining and strengthening our product portfolio, improving productivity and our cost structure, building the foundation for stronger top-line growth, and strengthening our organization and culture.” – 2016, Procter & Gamble Annual Report, Letter to Our Shareholders, p. ii.

“Third, we’ll be focused on increasing productivity. By driving volume-based revenue growth while also controlling costs in all areas of our business, we will expand our margins over the balance of this decade.” – 2016, Eli Lilly Annual Report, Letter to Our Shareholders, p. 3.

“Our continued focus on operations and the prudent deployment of capital resulted in the highest operating earnings, operating margin and earnings per share (EPS) in the company’s history.” – 2016, GenDynamics Annual Report, Letter to Our Shareholders, p. 2.

C7: Pricing Decisions are related to retaining low prices which in turn denotes production efficiencies. Pricing could be a function of regulations in the form of ceilings or floors and managing growth of profit within this boundary. At its core pricing decisions are about effective supply chain management to drive financial performance.

“Schlumberger has navigated the commercial landscape by balancing pricing concessions and market share and also by proactively removing significant costs through workforce reductions, internal efficiency improvements, and strong supply chain management. As a result, Schlumberger has delivered superior financial results by maintaining pre-tax operating margins above 10% and delivering sufficient free cash flow to cover a range of strategic capital investments, as well as our ongoing dividend commitments.” -2016 Schlumberger Annual report, Letter to Shareholders p. 3.

C8: Scaling Decisions, have to do with leveraging the size of an organization to create growth or to eliminate inefficiencies. Decisions about processes and schedules either result in profitable growth through either divestures or acquisitions.

“The Starwood acquisition, completed on September 23, 2016, expands our presence around the world, broadens our appeal to younger travelers, and provides a wide range of choices for our guests. With our tremendous scale, we see significant financial benefit for our owners, franchisees, and shareholders and exciting, new opportunities for our associates and the communities where we live and work.” – 2016, Marriot Hotels Annual Report, Letter to Our Shareholders, pi.

C9: Cost Management Practises

“Our 2016 priorities were to finish projects under construction; reduce capital spending; reduce operating expenses; complete asset sales; and operate safely and reliably. We made substantial progress (see graphic, Page 4) on these priorities as we worked toward our goal of becoming cash balanced and able to pay the dividend from free cash flow in 2017.” – 2016, Chevron Annual Report, Letter to Our Shareholders, p. 2.

“From 2001 to 2007, we generated more than \$20 billion in cash from operations, in part, due to our rigorous cash management initiatives..” – 2007, Lockheed Martin Corporation Annual Report, Letter to Our Shareholders, p. 4.

All the principles of a PO are very well summarised in the statement below by Baker Hughes.

“First, we said we would simplify the company’s organizational structure and operational footprint to improve profitability and return on invested capital. Our initial goal was to reduce annualized costs by \$500 million by the end of 2016. Second, we said we would optimize our capital structure by reducing debt and buying back shares while maintaining financial flexibility..” – 2016, Baker Hughes Annual Report, Letter to Our Shareholders, p. 2.

5.3 Descriptive Statistics

The purpose of descriptive statistics is to develop an understanding the environment of the data. By identifying the fundamentals and characteristics of the data, insight into the quality of the results produced by analysis is obtained. As noted before the sector representation was skewed towards the medical and consumer goods affected by business cycles. The sample of healthcare firms were categorised as predominantly customer orientated. Technology was under represented because most technology firms on the S&P have existed for less than 20years. The USA as a nation are considered the leaders in PC adoption rate and internet user (Ferraro, 2017), this rate of adoption is represented below because only one firm qualified to be in the sample based on time horizon of existence. Therefore this study would be relevant for technology firms in the US as the country’s economy is in a technology – based growth phase because it provides guidance on the strategy to use to ensure long-term profitability. The overall results of the study and the representation of healthcare in the portfolio that exhibited the most profitability over the long-term. Evaluating the leavers from the S&P over the last two decade revealed that the healthcare firms also exhibited lower delisting rates from the index over the timeframe in comparison to the other sectors and largest cohort of leavers was from the technology and finance (Thomson Reuters, 2015). Table 3 shows the shares in the two sample groups (Customer and Profit orientated groups) Customer Orientation group having 17 shares.

Table 3: Qualifying Companies and Respective Orientation

: CUSTOMER ORIENTATION		PROFIT ORIENTATION	
Code	Company Name	Code	Company Name
1	PFE	AIG	American International Group Inc
2	NKE	MO	Altria Group Inc
3	NEE	BHGE.K	Baker Hughes A GE Co
4	MMM	CAT	Caterpillar Inc
5	LOW	CVX	Chevron Corp
6	LMT	CVS	CVS Health Corp
7	JPM	LLY	Eli Lilly and Co
8	WMT	XOM	Exxon Mobil Corp
9	TJX	F	Ford Motor Co
10	TMO	GD	General Dynamics Corp
11	PNC	HON	Honeywell International Inc
12	HAL	ITW	Illinois Tool Works Inc
13	ECL	INTC.O	Intel Corp
14	D	JNJ	Johnson & Johnson
15	CI	MAR.O	Marriott International Inc
16	BMJ	MRK	Merck & Co Inc
17	T	PG	Procter & Gamble Co
18	AMGN.O		
19	FOZA.O		
20	HD		

A frequency count of all the key words for the constructs discovered in the coded documentation is presented below Table 4. A few quotations from each construct is discussed briefly, rather than all the quotations. **the top five frequency codes will be presented rather than all the codes.** Coding is considered an exploratory problem-solving technique without specified formulas or algorithms to follow (Saldaña, 2016, p. 9).

Table 4: Frequency Count Table

						PROFIT ORIENTATION						
C - 1 Customer Value	C1.2 customer equity	C1.3 customer relationship	C2 Customer Satisfaction	C2.2 ACSI	C4 Inter- Functional Coordination	C - 5 None	C6 Profit Maximization	C6.2 margin decisions	C6.3 production decisions	C7 Pricing Decisions	C8 Scaling decisions	C9 Cost management practises
3												
2							1					4
2												
3												
								1				4
10					15	1						
3					3	1		3				1
2					5	1	3					4
							1					
1						1						1
1						3	4	4			1	2
2							3	1			3	1
3					2		3	2	1		2	3
							2					
							2	1			1	
						1						
							1	3			1	1
1							3					
5			2		6	2					1	
3					2	3			2		1	
7									1			1
1	1	1	1						1		1	
											1	1
7						2	1					
2						1	2				2	1
						4						1
						1						
4					1	3		2	1			7
1						2	2					2
						2	4		6			1
4					1						4	
						1	3		1		1	1
	1						4		1			6
4					1	3						1
					1	1	1					
4						2	4	1	2		1	2
3									1	1		1
9					1	4	1		1		2	
1							9	1	1		2	
2						1	2					3
2	1	1	1		2	2	2				1	1
5		1				1					1	
4					1				1			1
			1			2						0
							1	1				2
						1						
5						1					1	1
							3					
1			1			2	3			1	3	1
4					1							
1							2					
3					1	2		1				2
1			1				1					1
3			2				0					
2						1	2				1	
						1						
						1						
						1	3					
1							3					1



1						1							
						1							
3		1			1		1					1	
						1	3		1				1
4							1						1
1						2							1
2		1	1			2	4	1	1				
5					1		3						
3					1	1							1
3					2	1							
144	3	5	10		49	64	88	22	22	2	32	63	

Table 5 details the sectors represented in the sample frame including the market capitalisation contribution of each sector to the sample.

Table 5: Sector Representation and Market Capitalisation of Sample

Sector – TRBC	Sector Market Cap USD	Percent
Technology	192 424 050 000,00	4,19%
Financials	523 324 965 353,64	11,41%
Healthcare	1 224 395 230 278,55	26,68%
Consumer Cyclical	536 087 086 647,14	11,68%
Industrials	401 227 971 816,15	8,74%
Consumer Non-Cyclicals	683 785 442 206,28	14,90%
Energy	650 814 704 102,95	14,18%
Utilities	123 997 101 084,13	2,70%
Basic Materials	38 285 146 122,30	0,83%
Telecommunications Services	214 040 400 000,00	4,66%
Total	4 588 382 097 611,14	100,00%

Healthcare sector had the highest percentage of shares (%) in the sample with Basic Materials and Utilities having the lowest percentage of shares in the sample.

Table 6: Descriptive Statistics of Customer Orientation Share ROE

Customer Orientation ROE					
Firm Name	Mean	Standard Dev	Min	Max	Count
Pfizer	24.6%	0.166	7.6%	61.5%	20
Nike	30.6%	0.050	20.3%	39.6%	20
NextEra	17.4%	0.016	14.4%	19.2%	20
Marsh & McLennan	48.7%	0.566	16.8%	281.2%	20
Lowes	30.1%	0.132	15.2%	73.8%	20
Lockheed	107.0%	1.706	2.0%	783.1%	20
JP&Morgan Chase	15.1%	0.074	1.9%	32.8%	20
Wallmart	33.0%	0.030	25.9%	38.7%	20
TJX	70.4%	0.118	45.6%	89.5%	20
ThermoFisher	8.8%	0.037	2.5%	18.8%	20
PNC Financial	19.4%	0.095	5.4%	40.9%	20
Halliburton	19.8%	0.256	(61.3%)	52.8%	20
EcoLab	30.9%	0.079	17.2%	41.9%	20
Dominion	20.1%	0.086	9.4%	43.8%	20
Cigna	25.6%	0.131	(14.4%)	48.4%	20
Bristol-Myers	37.2%	0.158	14.3%	65.0%	20
AT&T	25.7%	0.192	(4.3%)	72.8%	20
Amgen	27.7%	0.138	(5.8%)	56.1%	20
21 Century Fox	13.8%	0.210	(43.7%)	56.9%	20
Home Depot	19.5%	0.054	8.4%	29.4%	20

Table 6 shows that Lockheed and TJX has the highest means of ROE with Lockheed also having the highest standard deviation and maximum ROE. It is the only industrial firm that qualified under customer orientation. ThermoFischer has the lowest mean and

also the lowest max. Only Halliburton, Cigna, AT&T, Amgen and 21 Century had at least one negative ROE over the 20 years.

The Altria Group had the highest mean of ROE with Ford Motor Co the only share with negative ROE. Ford motor Co also have the highest standard deviation and was the only share with negative ROE, it reflects market activity for automobiles in the last 20 years (OECD, 2017) which has seen a steady decline due to a number of factors such as economic condition, an increase in shared driving or rise of alternative public transport services such as UBER. 7 out of 17 shares had at least one year in the 20 years were the annual ROE was negative.

Table 7: Descriptive Statistics of Profit Orientated Share ROE

Profit Orientation ROE					
Firm Name	Mean	Standard Dev	Min	Max	Count
American International Group Inc	1.0%	0.031	(10.8%)	3.7%	20
Altria Group Inc	112.2%	0.800	12.6%	279.3%	20
Baker Hughes A GE Co	14.3%	0.203	(15.0%)	75.2%	20
Caterpillar Inc	6.3%	0.032	0.2%	12.2%	20
Chevron Corp	30.0%	0.162	(1.4%)	52.6%	20
CVS Health Corp	10.8%	0.027	3.8%	16.3%	20
Eli Lilly and Co	39.6%	0.206	(12.9%)	69.8%	20
Exxon Mobil Corp	37.3%	0.172	4.7%	71.1%	20
Ford Motor Co	(9.3%)	1.229	(396.3%)	120.9%	20
General Dynamics Corp	30.8%	0.082	3.8%	41.8%	20
Honeywell International Inc	7.9%	0.049	(3.6%)	13.9%	20
Illinois Tool Works Inc	29.7%	0.104	14.7%	61.4%	20
Intel Corp	27.9%	0.126	6.0%	58.9%	20
Johnson & Johnson	33.1%	0.063	21.8%	42.0%	20
Marriott International Inc	9.3%	0.052	(5.0%)	19.4%	20
Merck & Co Inc	15.9%	0.085	1.5%	28.2%	20
Procter & Gamble Co	12.8%	0.036	8.0%	19.5%	20

Table 7 shows that Altria Group had the highest mean of ROE with Ford Motor Co the only share with negative ROE. Ford motor Co also have the highest standard deviation. 7 out of 17 shares had at least one year in the 20 years were the annual ROE was negative.

Figure 9: ROE and Performance With and Without Outliers shows the impact of outliers in the total sample on overall performance. It indicated that the outliers' in the sample did have a significant impact on the performance of the portfolios. As a result the standard deviation of sample with outliers and without outliers was plotted in order to understand the magnitude of this impact on the financial performance results and the author noted

that there was a significant difference between the years 2005 and 2016 with 1997 to 2005 not showing any major difference.

Table 8: Mean ROE Total Sample

DESCRIPTIVE STATISTICS OUTLIER INCLUDED					
	N	Min	Max	Mean	StdDev
ROE	555	(396.3%)	783.1%	28.1%	51.3%

Table 9: Mean ROE Outliers Removed

DESCRIPTIVE STATISTICS OUTLIER INCLUDED					
	N	Min	Max	Mean	StdDev
ROE	555	(21.4%)	73.0%	20.3%	15.2%

Table 8, and Table 9 and Figure 9 represent the descriptive statistics for the total sample frame during the financial year 2000 to 2016 for the financial measure of ROE. Lower standard deviations are recorded before outliers are removed. The interquartile range rule (IQR) proposed by Tukey and revised by Hoaglin and his fellow researchers was used to identify outliers in the data which was replaced by a zero therefore the size population was retained. The difference of quartiles was multiplied by a factor of $(g) = 1.5$. Mean values indicate that over the timeframe investigated organisations have reported negative returns on equity. With the removal of the outliers the standard deviation and mean improved from 51.3% to 15.2% and 783.1% to 73.0%. Comparing the ROE values with outliers included and excluded –original dataset value and values after adjustment – difference in performance is negligible and therefore the original dataset is utilized for the final statistics.

Figure 9: ROE and Performance With and Without Outliers

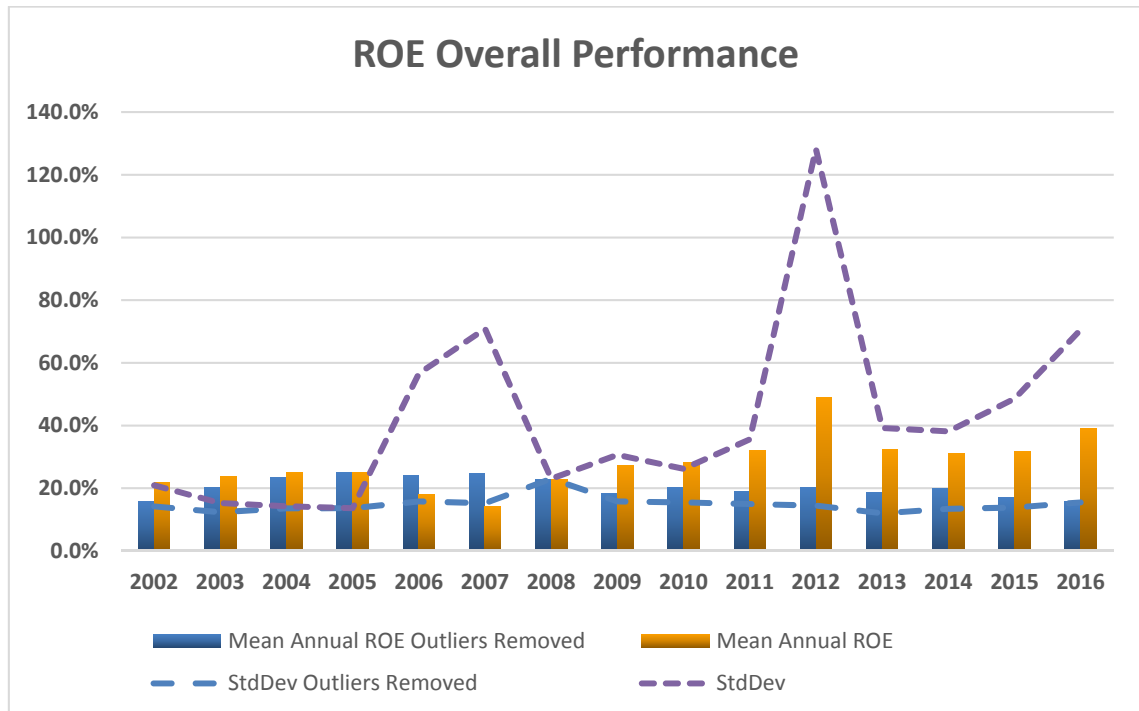
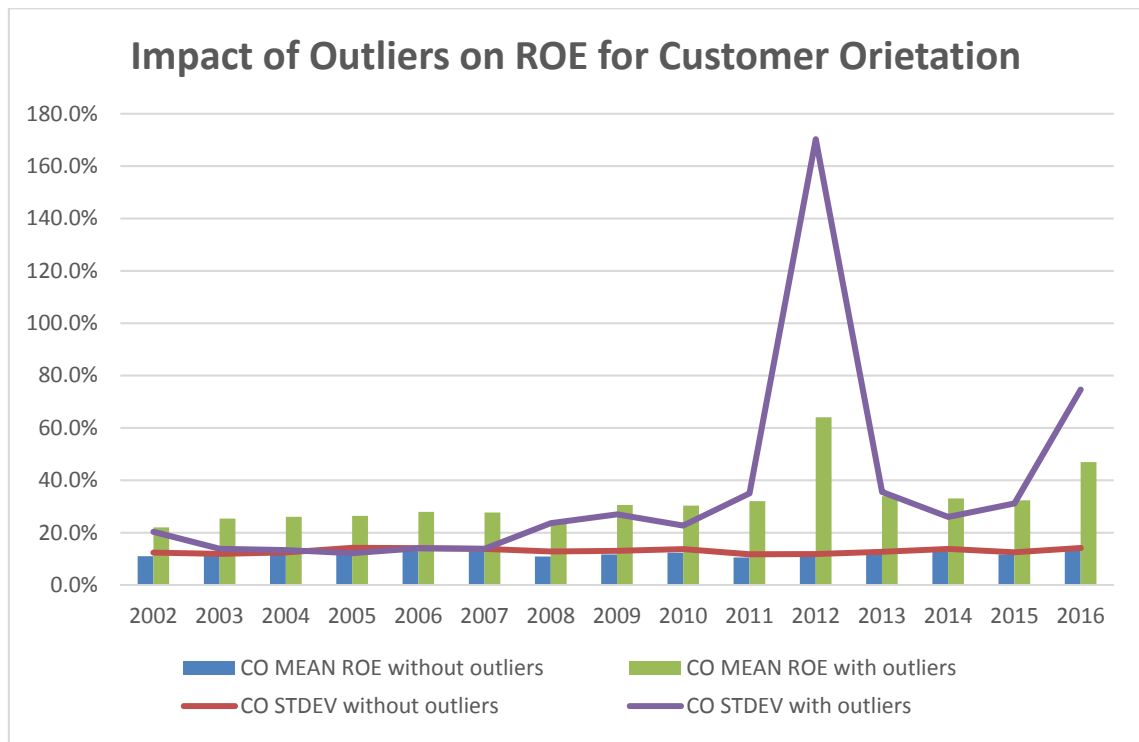
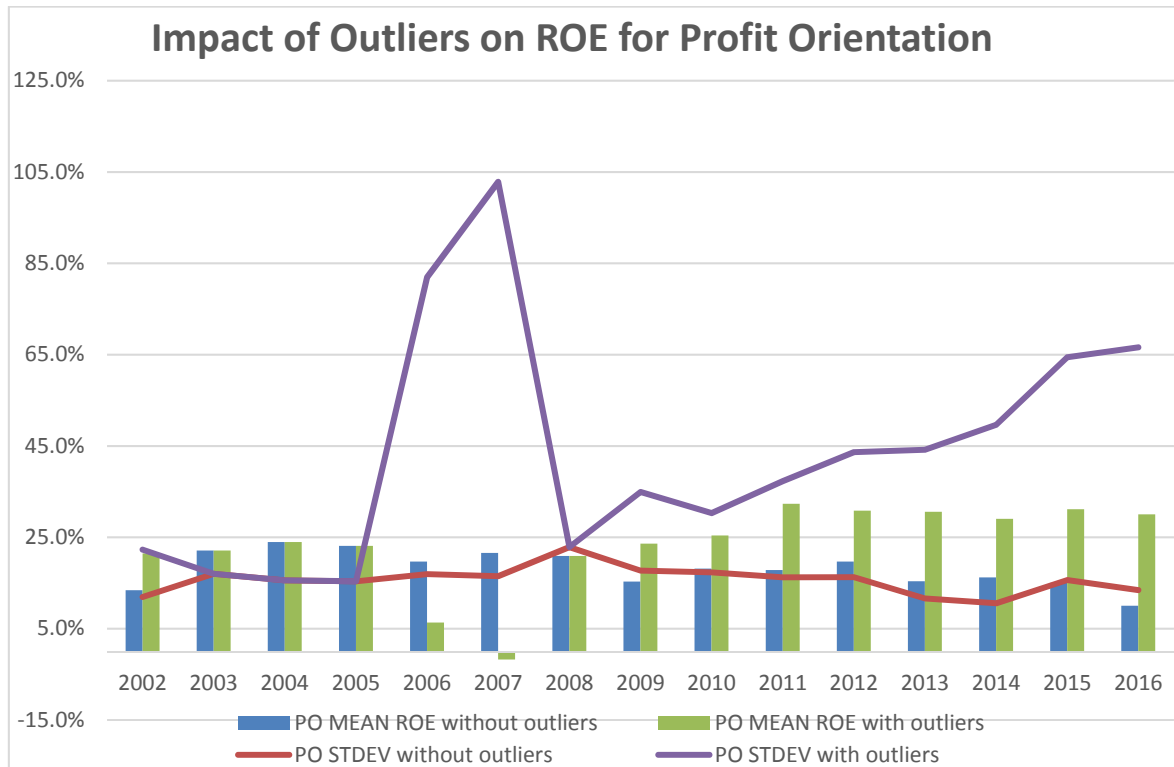


Figure 10: Difference in Means of Returns for Customer Orientated Firms



In Chapter 4 Figure 10 and Figure 11 where combined and the information as it was presented showed that firms should have been reporting negative returns to invested equity. Realising that this could be the influence of one portfolio separate descriptives were conducted on each portfolio. The results indicate that profit orientation has been making substantial losses to equity.

Figure 11: Difference in Means With and Without Outliers for Profit Orientated Firms



The two bar charts above indicate the influence of the outliers on the performance of the firms in the sample. For the two strategic orientations the returns in terms of ROE show less variance than the returns reported inclusive of outliers.

5.4 Hypothesis Testing

This was conducted using a one-sided test for difference for the annual ROE figures and style engine analysis of the time series share price data. As this was a comparative study that sought to establish the financial performance of two strategic orientations a single hypothesis was tested along two dimensions. The hypothesis tested are stated below.

H0: Customer orientation does not exhibit better financial performance than profit orientation, between the two strategic orientations.

H1: Customer orientation will exhibit better financial performance than profit orientation, between the two strategic orientations.

H0: $CO.t \leq PO.t$

H1: $CO.t > PO.t$

5.3.1. Hypothesis using ROE

To understand whether strategic orientations impact a firm's financial performance a Paired t-test analysis was conducted to test each of the independent variables against the dependent variable, which was ROE. A test for difference was conducted and revealed that a significant relationship existed between the average ROE performance and the strategic orientations.

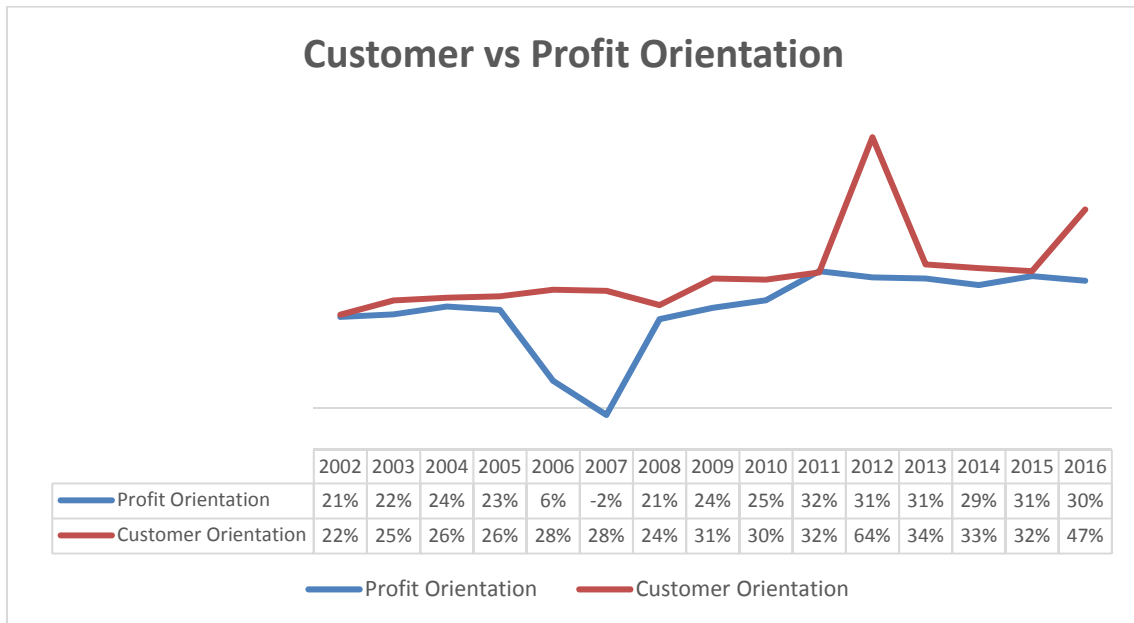
Table 10: Correlation of Strategic Orientations to ROE

t-Test: Paired Two Sample for Means		
	<i>Customer Orientation</i>	<i>Profit Orientation</i>
Mean	0.31	0.2441
Variance	0.01	0.0074
Observations	20	20
Pearson Correlation	0.38	
Hypothesized Mean Difference	0.00	
df	19	
t Stat	3.06	
P(T<=t) one-tail	0.003	
t Critical one-tail	1.73	
P(T<=t) two-tail	0.006	
t Critical two-tail	2.09	

The p-value of a one tailed t-test is less than 0.05 and the mean for customer orientation is more than the mean of profit orientation ROE, which makes us reject H0 and conclude that Customer Orientation will exhibit better financial performance, in terms of ROE than profit orientated companies, between the two strategic orientations. Pearson Correlation coefficients is a test used to test the strength of the relationship between the variables - dependent and independent. As the scores range from a positive one, indicating a perfectly correlated positive relationship to a negative one denoting a perfectly correlated negative relationship, the results in Table 10: Correlation of Strategic Orientations to ROE, indicate that there is moderately strong positive correlation between the dependent variable and the independent variables.

The findings of the Paired t-test indicated that there was a significant relationship between strategic orientations and financial performance, which is to be expected because the purpose of strategy in business is to provide direction for the allocation of resources, so that firms can be financially sustainable. This is confirmed by the chart below Figure 12, which exhibits the annual average ROE returns between a profit and customer orientated companies over the timeframe. The results in the graph revealed that customer orientation consistently gave investors a higher return for their investments.

Figure 12: Customer orientation vs profit orientation annual average ROE



5.3.2. Hypothesis using share price (Time Series)

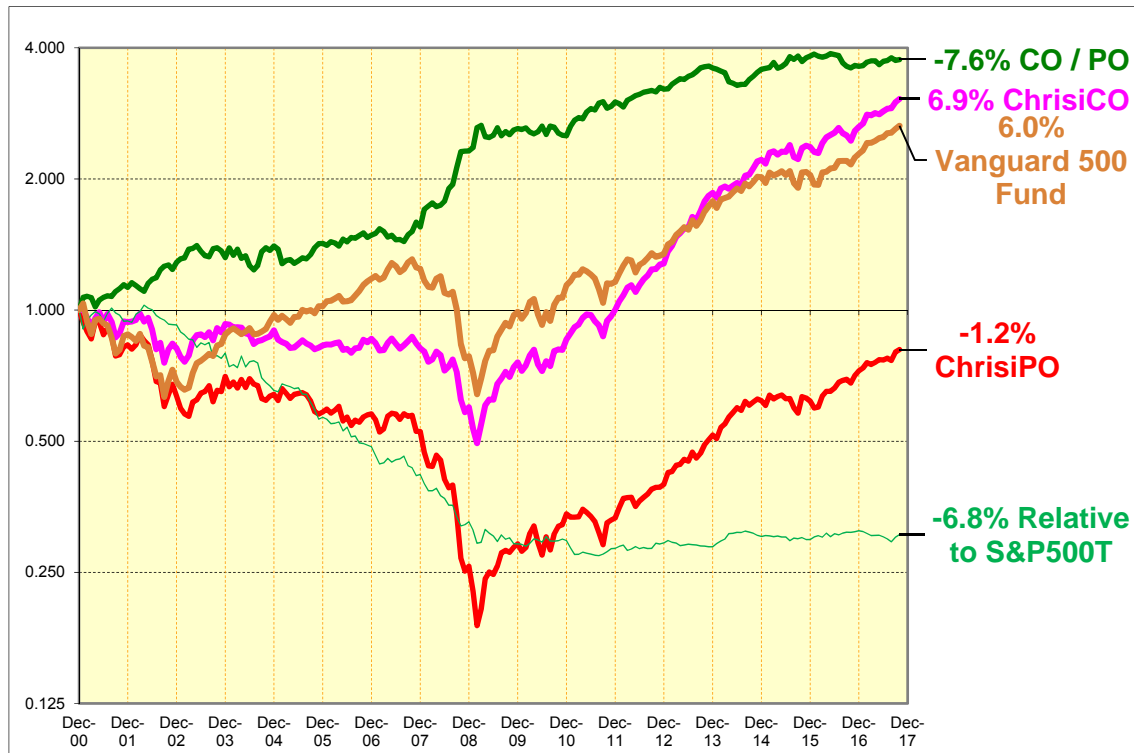
H0: Customer orientation does not exhibit better financial performance than profit orientation, between the two strategic orientations (Using Share price).

H1: Customer orientation will exhibit better financial performance than profit orientation, between the two strategic orientations (Using Share price).

Recorded in the graph below Figure 13 is the comparative performance of the two different strategic orientations specifically the difference in performance between the independent variables and dependent share appreciation. The horizontal axis represents the time horizon from 2002 to 2016 because the data for share prices before 2000 was inaccessible. The vertical axis indicates the cumulative returns on a logarithmic scale with a base of one. The line graphs indicates the two portfolios returns as discussed previously but also tracks the performance of the Vanguard index which is used as a benchmark for comparative purposes.

The values on the right-hand side of the graph report the annualised percentage return for the portfolio over the timeframe for each strategic orientation. To interpret the association between the variables and organisation performance thereby proving the hypothesis, the difference in performance is observed and compared. There is a clear outperformance observable between organisations that are customer orientated compared to firms that are profit orientated. Interestingly, profit focused firms recorded a sharper downward trend in comparison to firms that are customer focused that are on an upward trend. After the expected dip in 2008 due to the global financial crisis, organisations that are customer centric seemed to have recovered faster and outperformed the index as from mid-2012.

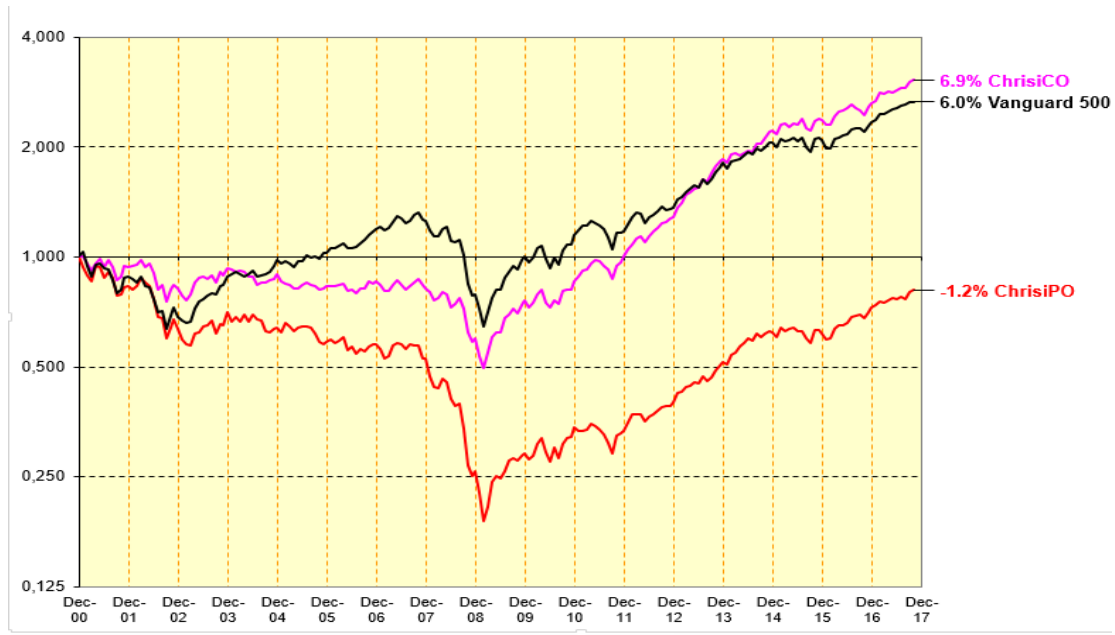
Figure 13: Comparative Performance of Strategic Orientations



Relative performance measures are used to identify excess returns that would have accrued to an investor, had they possessed the portfolio with the highest returns. The slope of the price-relative indicates the times when the best performing portfolio outperformed the lowest. Two price relatives are conducted, one comparing the best performing and poorest performing portfolio and another comparing the best performer in this case customer orientation against the S&P500 itself. The measure of relativity reveals that customer orientated companies did not significantly outperform the S&P500, index of which it is a part of, however the upward trend observed for the relative difference for a customer and profit orientated portfolio indicates that customer focused portfolio was constantly outperforming portfolios with a profit objective.

A benchmark is a standard measure against which performance can be measured, therefore it is a measure of expectation or expected returns and can also be a measure of lost opportunities. Benchmarks normally are chosen because of similar characteristics that they share with the index or investment portfolio under investigation. The Vanguard 500 was chosen because it includes large cap firms and the mutual fund is designed by investors from the firm to mimic the returns one would get if invested on the S&P500. Tracking the S&P00 against the Vanguard showed almost identical movement therefore it was excluded from the graph below.

Figure 14: Performance of Strategic Orientations Relative to Benchmark



Customer orientated firms only started out-performing the benchmark in December 2013 and unexpectedly considering all the research advocating profit as the purpose of a business, profit orientated firms in the past two decades have exhibited consistently poor returns.

Chapter 6: Discussion of Findings

6.1 Introduction

This Chapter will discuss the findings of the results presented in Chapter 5 and provide insight on the findings with support from the literature. It will resolve the research questions posed in Chapter 3 and explain the results in the statistical test. The Chapter is structured in three sections, descriptive statistics repudiate profit orientation, findings on the two hypothesis and how they fit into resolving the single research question.

The findings are at two levels, one setoff findings is the internal accounting measure of return ROE and the external measure of share value. The two parameters are significantly different in terms of measuring financial focus. ROE measures the operational efficiency of the management team with the resource of shareholder money. The external return based on appreciation and share value, denotes the markets response to the business' activity. The fact that both measurement returns that Customer Orientation results in superior financial performance settles the debate, at it has huge implications for decision makers for rethinking the primary goals and decisions they make around strategy and operationalising strategy. While they are still thinking financial performance is addressed by a profit orientation the findings based on 15 years of data dispute this.

6.2 Repudiating Profit Orientation Theory

One of the most contentious issues in strategic management is if a profit orientation or customer orientation results in superior financial performance. (Friedman, 1970a), a Nobel Laureate and economists emphasized the need for the CEO as an agent to be geared towards profit orientation. His arguments were based on two ideologies: he proposed that an organisation is a non-living entity and therefore should not have or rather could not have any other responsibilities to meet including social ones. Only people could have social responsibilities. Although he was not arguing against individuals working in a cooperation owning a socially orientated goal, he posited that any socially focused goal would be a result of a temporary fad and therefore would be lacking in theoretical substance.

He argued on the basis of two principles, management as an agent does not have the

right to spend money for the benefit of meeting his own personal goals therefore management's primary responsibility was to the shareholder and for creating wealth for the shareholder. Arguments regarding business becoming the proponents of social goals because of governments lack of responsiveness to institute legislation that promotes social responsibility, Friedman, (1970b) argued were by their nature immoral. He alleged that it was in fact manipulation by individuals' who had failed to influence government decision and therefore seek to influence decision makers through co-optation. His arguments are valid because they are based on principle, however him and many scholars that proceeded him failed to recognize the changing views on social justice that were occurring that resulted in regulations such as BBBEE (Republic of South Africa, 2014) and Corporate Social Responsibility (CSR) policies and globally the GINI coefficient (The World Bank, 2013) that are considered by potential investors as an element of the economic competitiveness of a country, company. Secondly the lack of foresight means that in the modern context they failed to anticipate what the role of business would be in the future; companies face reputational damage or consequences for disregarding social-justice issues. Lastly, it fails to address the fact that government cannot be considered the sole source of social benefits, because Social welfare became an important aspect of good Corporate Governance. Codes such as the King III (Institute of Directors Southern Africa, 2016) are evidence of the evolution of corporate governance. Therefore the value of socially orientated goals and the economic consequences to shareholders of not incorporating social objectives are a failure to adjust to modern day governance issues.

In relation to Friedman, (Malinovskii, 2015) stated that a profit orientation is important when a potential investor is seeking an income generating investment vehicle. Therefore survival is based on a firm's ability to optimise revenue (C. Y. Lee, 2016); this is related to the Market Selection hypothesis that states that a firm has to be able to attract finances and generate profit (Samuelson & Marks, 2011; Sanchez-Barrios, Andreeva, & Ansell, 2016). However, provided evidence to suggest that a focus on meeting profit objectives results in failure and therefore bankruptcy because of 'bounded rationality'.

Malinovskii, (2015) further reasoned that the aim of a firm was threefold, complying with the legal requirements to remain solvent, to ensure that a company's portfolio lies within the target interval and to remain profitable. The paper was a proposal and exploration of how a profitability target could be met: it was a model for a pricing strategy that would ensure that time, in the case one year, would not result in a loss in value for the firms' portfolio under management. Simon, (1997; 1959), recognising that decision making was flawed by 'bounded rationality' and therefore reaching a goal (profit objectives) was subject to computational and knowledge capacity limitations. Due to this, the author

would like to argue that the two problems confronted when making a decision as described by Simon, (1997) finding of alternatives and developing a strategy to create the maximum amount profit leads to lower profits as demonstrated by the results of this study of a loss in returns Refer to Figure 16 and Figure 17. In a scenario where optimizing revenue is the strategy, this would lead to either highly risky behaviour as demonstrated by KPMG's recent scandal or not making a decision out of fear of losing returns. Or as Simon, (1997, p. 16) noted, more time is spent on considering alternatives than in actually making the decision.

Another argument brought forth by Friedman, (1970b) and perhaps his most opposed is that resource acquisition should be based on maximising utility, which implies that the firm is purely a production function. Mathematically a firm would be the sum of its parts, or rather the maximum amount of outputs that can be obtained from a given amount of input whether labour or capital. However a gap in literature that is noted by Moily, (2015) is that production literature explicitly ignores demand relationships and economics literature ignores the detailed development of cost relationships, means that the production function is still theoretical. Secondary consequences of a focus on profit, sometime causes a focus on higher margin products, which results in higher interest rates transferred to the customers and operating higher costs (Roberts, 2013). As well as distracting managers from crafting strategies to address specific customer needs, which is termed their development logic and is therefore an in-efficient use of resources (Leibenstein, 1966). This leads to providers sacrificing quantity for quality and that leads to lower customer equity which reduces the sustainability of the firm. This the researcher posits is another reason for the poor performance of profit orientation firms over the last 15 years.

Regarding maintaining competitive advantage, by selecting a position in the market that protects a firm from losing profitability because of competitive forces, Porter's, (2008; 1985) framework is the most widely used to ensure this. By choosing a favourable market structure and employing mechanism to alter the structure as needed would maintain this profitability position (Miles, Snow, & Sharfman, 1993). He, Porter recommended a set of mechanisms to control industry structures such as barriers to entry and maintaining power either as a supplier or buyer. This entailed firms constantly reducing production costs by focusing on scaling capabilities and other cost reductions down the value chain, control of the overhead costs and cost minimization in value added services such as R&D, advertising. This results in loses on two fronts, potential value captured because of value-added services and lose in opportunities to collaborate which leads to cost alignment and thereby savings, as firms prevent entry into the market. The loss in

opportunities to align costs, profits gained from value-added services and investment into innovation would explain why profit orientated firms lost value for shareholders and lost value in the market. Furthermore, profit focused strategies involve price discrimination, which is often stated as leading to price wars and is an inefficient manner to establish competitiveness. Bamiatzi and Kirchmaier, (2014) found that in adverse environments, firms make an intentional search for high-margin products, avoid aggressive price competition and maintain tight control of costs

Jaehn is perhaps the first scholar who has recognized the necessity for a more realistic view on profit orientation, he advised that the purpose of a firm is to ensure economic sustainability, however this goal can be achieved along with creating value for individuals, the firm and society at large (Jaehn, 2016).

Figure 15: t-test Paired Two Sample Means

t-Test: Paired Two Sample for Means		
	<i>Customer Orientation</i>	<i>Profit Orientation</i>
Mean	0.31	0.2441
Variance	0.01	0.0074
Observations	20	20
Pearson Correlation	0.38	
Hypothesized Mean Difference	0.00	
df	19	
t Stat	3.06	
P(T<=t) one-tail	0.003	
t Critical one-tail	1.73	
P(T<=t) two-tail	0.006	
t Critical two-tail	2.09	

The p-value of a one tailed t-test is less than 0.05 and the mean for customer orientation is more than the mean of profit orientation ROE, which makes us reject H0 and conclude that Customer orientation will exhibit better financial performance than profit orientation, between the two strategic orientations.

6.3 Validating Customer Orientation

In contrast to the above, 6.2 the father of modern day management Drucker, (1954) maintained that the purpose for a company is to create a customer. His work is substantiated by a number of studies elucidating the benefits of this objective.

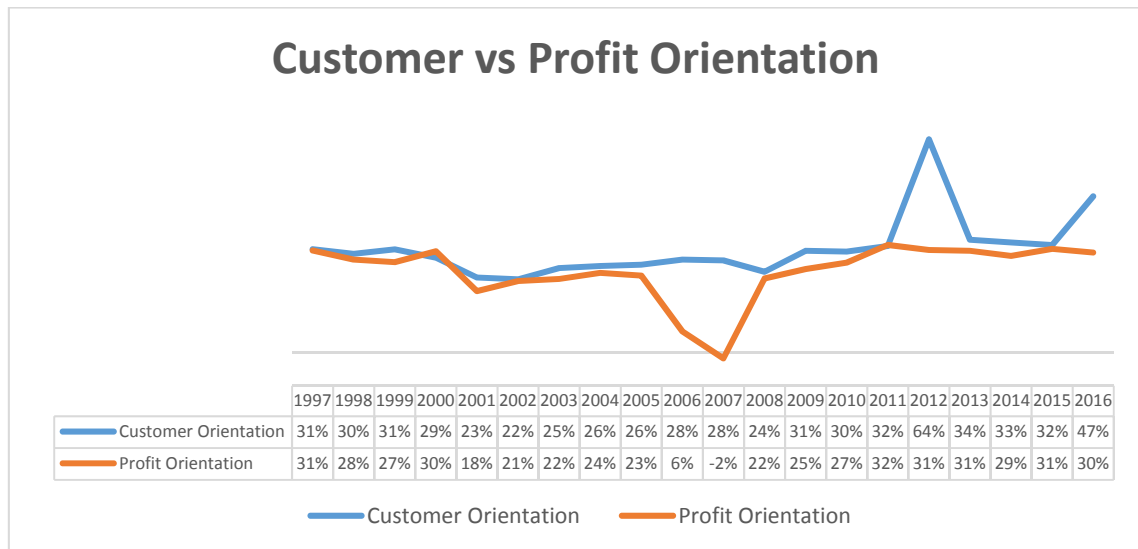
H0: Customer orientation does not exhibit better financial performance than profit orientation, between the two strategic orientations (ROE)

H1: Customer orientation will exhibit better financial performance than profit orientation, between the two strategic orientations (ROE)

H0: CO.t ≤ PO.t

H1: CO.t > PO.t

Figure 16: Customer orientation vs profit orientation annual average ROE



The author observed significant differences in the performance of customer orientated and profit orientated firms in terms of earnings and the internal measure of ROE. The comparative difference between the average ROE returns for customer orientated and profit orientated firms the returns were marginally higher than for Profit focused organisations. In 2007 the year before the financial crash Profit orientated firms did not create value for its shareholders and was not using the investments effectively. Customer orientated firms however, experienced minimal loss of value. Therefore it is proposed that firms in this orientation are insulated against downward market trends and economic uncertainty. This insulation is created by the fact that, customer orientation is considered a learning goal orientation because it enables firms to continuously process and use regenerative learning techniques to gather information about the customer. It indicates firms that are able to renew organisational memory to create value by achieving specific customer outcomes through innovation and loyalty (Yaprak, Tasoluk, & Kocas, 2015). Therefore a company in this orientation would be able to detect changes in the market or changes to the economic status of its customer and adapt accordingly. Interestingly, the author posits that the difference in returns between the two portfolios explains the large deviation observed as a spike in Figure 10 and Figure 11.

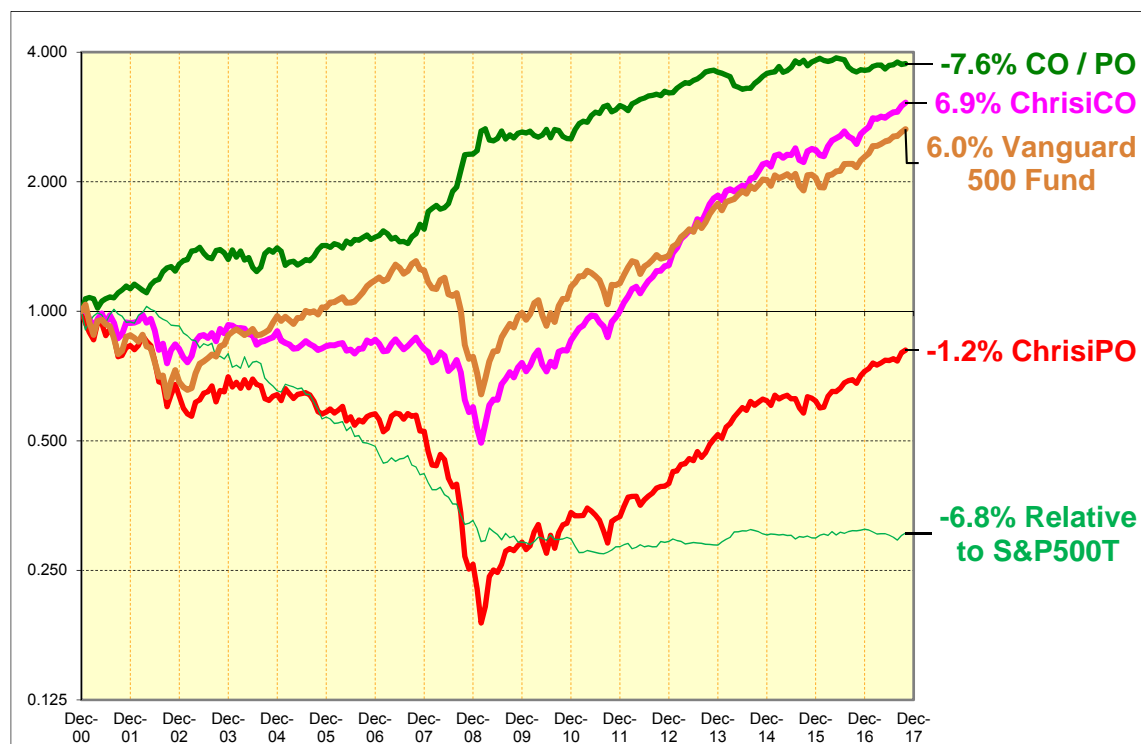
Customer orientation is involved with gathering market intelligence of buyers and customers to aid in better decision making (Gatignon & Xuereb, 1997). In contrast firms that are profit orientated are not associated with the gathering of market intelligence but rather gaining understanding of financial levers that control cost and profit (Roberts, 2013). The ability to assimilate and respond to customer needs led to the creation of value in this study as well in the study by Gatignon and Xuereb (1997). They argued that superior value resulted in customer satisfaction. Customer satisfaction can only be achieved when products supplied meet a customer's needs and expectations. For the companies included in this research, knowledge of customers led to better decision making and is reflected in the findings of superior financial performance (Narver, Slater, & MacLachlan, 2004). In contrast profit orientation is associated with risk aversion in studies the studies by Arcelus, and his colleagues as well as Raza and his research partner, (2012; 2017). These researchers highlighted an important drawback to the orientation, any decisions that are made are geared towards protecting or maintain a certain financial level.

A profit focus has been shown to contribute to managerial insight because of the coordination required to between supply chain and retailer to reduce costs (He & Khouja, 2011; Shi, Zhao, & Xia, 2010) however this back-end adaptation could benefit customers when paired with inter-functional coordination inherent in customer orientation. Inter-functional coordination occurs when there is a high degree of integration between the business units for the purpose of responding and adapting to client needs, improving communication so that misunderstandings about customers are reduced (Rapp, Beitelspacher, Schillewaert, & Baker, 2012). Another potential benefit of customer orientation that can only be addressed by internal coordination is when firms seek to understand the consumer value chain so that value could be created by predicting future changes (Day, 2006). A profit orientation does not allow the identifying of cooperation opportunities and therefore the sentiment of cooperating or partnering with customers that was identified in customer orientated firms included in this study, would not result in that portfolio of firms out performing its counterparts in the market. Therefore the profit orientated firms did not allow individual members in any function to create value for buyers.

The researcher can only speculate that the characteristics of the firms in the sample are similar to those presented in the literature about the construct. Three aspects that are important to defining the orientation that were inferred from the communication by top management, in this study is customer satisfaction and customer value and inter-

functional coordination. Another aspect that researchers claim contributes to the results exhibited in this study and other research by Ngobo and Srivastava and their colleagues (2012; 1998) is a term not explored in this research termed customer equity. Simplistically it is the long-term commitment or relationship created between a customer and a supplier due to some intangible association or benefit received. It is going concern or the lifetime value of the customer whether current or new (Kumar & Shah, 2009). This is equivalent as staying with a bank for years due to the fact that they are the only bank that would offer you a home loan during a particularly financially challenging time. The loyalty created is termed equity. Kumar, Venkatesan, & Reinartz, (2008) and his colleagues through filed experiments were able to prove that customer orientated sales strategies, significantly increased profits and return on investment. In some instances the scholars were able to observe incremental profits of exceeding non- customer focused sales campaigns. Customers were found to be the source of the improvement in the efficiency and effectiveness of marketing contacts because of the improved relationship quality between the firm and the customer. Customers as a source of information means that customers become market-based assets for the firm (Nenonen & Storbacka, 2016; Srivastava et al., 1998). This meeting of customer demands, improved relationships, sales generated through contacts result in increased market share as C. H. Wang and his colleagues observed (2012) and the author suggests is another reason for the out performance of the portfolio of customer orientated firms.

Figure 17: Performance of Strategic Orientation



The findings graphed above are in line with findings in research by a number of researchers that discovered a positive relationship between customer orientation, its constructs and related concepts of market orientation (Brockman, Jones, & Becherer, 2012; Grisseemann, Plank, & Brunner-Sperdin, 2013; Hult & Ketchen, 2001; Kohli & Jaworski, 1990; Slater, 1997; Slater & Narver, 2000; Q. Wang, Zhao, & Voss, 2016; Zhou, Yim, & Tse, 2005). When comparing the performance of a customer and profit orientated portfolio purely, the findings suggest that a customer focused portfolio was constantly outperforming portfolios with a profit objective. Another observation regarding 'bounce back' is that performance of the customer orientated portfolio indicated that the firms in this portfolio recovered from the financial crisis faster than profit targeting competitors. Therefore it can be inferred that a companies that is focused to serving the customer develop the ability to be able to absorb shock during times of financial decline.

Another advantage to a customer orientated portfolio that was observed is that as of mid-2010 firms in this orientation have been consistently outperforming the benchmark. To be noted is that prior to global financial crisis the data showed that customer orientated firms were producing exponentially more returns than the profit focused firms.

However, observing what is referred to as the measure of relativity, between the highest earning and poorest performing portfolio, customer orientation did not significantly outperform its counterpart portfolio. Therefore although a moderate upward trend is observed the annualised loss was 7.6%. Similarly, the portfolio did not create value relative to the S&P500 as recorded by a loss of 6.8% and downward trend.

6.4 Conclusion

The findings reported in this report echo the evolution of thought within the strategic management field, over the last decades because of theorists such as Drucker (1954), Kotler (1967) and the economist Abbot (1955) and the more recent scholars who have expressed the importance of customer focused strategies to create behaviours that sustain long-term financial performance. Apart from the foundation they set, this research provides empirical evidence of their foresight regarding the changing roles of a firm to consumer orientated focus before technology was an obvious driver of perceived company identity. Therefore as Tajeddini, (2010) noted that the current consumer environment requires a focus on superior services and supplying above average products. However, the author would like to posit along with Jaehn, (2016) that a primary goal orientation of customer with a secondary goal of profit will ensure that a firm meets its financial obligations while creating value for its customers

Chapter 7: Conclusion

7.1 Introduction

The objective of this research was to prove conclusively, using empirical measures the debate of the strategic goal orientation that produces the most financial performance benefits between customer goal orientation and profit goal orientation. The literature reviewed led to one question and the investigation used two variables a measure of performance, the accounting measure of ROE and the market led measure of share price appreciation. The purpose of this chapter is to consolidate the findings of the research. Discuss the insights and implications of the findings on the target audience, provide recommendations for future researchers and advance a conclusion.

7.2 Research Findings

Using quantitative data based on 15 years of financial performance and categorisation based on a fair amount of assessing of qualitative data, the research proved that customer goal orientation results in superior financial performance to profit goal orientation. This was measurement is along two spectrums, Return on Equity an internal accounting measure and share appreciation, a market-related measure. To a large extent this research settles the debate between which orientation results in superior performance.

- Customer orientated firms' results in superior financial performance.
- Firms that are customer orientated are insulated against economic uncertainty.
- A customer orientation creates what the author terms 'bounce back effect from downward market trends, which is especially relevant in South Africa with the recent downgrades, therefore instead of survival profit focused survival mode, firms should instead choose customer-focused business strategies.

7.3 Management and Research Implications

This is one of the primary reason for research to inform the practitioner what he should do, and the second goal of research is to inform theory. This research is one of the first research which uses extensive data, which conclusively proves that customer goal orientation results in higher financial performance both internal and external. It is informing in a significant way and reframing the theory. Which is the second aim of research and this research has validated the customer orientation theory to a significant extent.

7.3.1 Research implications for strategy and management researchers

No previous research into the constructs of customer or profit orientation have compared the two orientations, the closest research that sought to relate the two was conducted by King, (1956) when the marketing concept was developed. Modern research focuses on enquiry into the financial performance of the sub-constructs of each principle in order test for example the relationship between customer satisfaction and financial benefits. Such as the study by Sun & Kim, (2013) which empirically proved the benefits of customer satisfaction on financial performance and firm value using Return of Assets and Return on Equity as measures of performance. Using individual-level longitudinal data of online retailers cross-sectional, case study research (Nenonen & Storbacka, 2016) have been used to draw the link between financial performance and an aspect of customer orientation (Brady & Cronin, 2001; Kumar, 2016; J.-Y. Lee, Sridhar, Henderson, & Palmatier, 2015; Li, Guo, & Lian, 2016; Sun & Kim, 2013).

As far as the researcher knows this is the first study of its kind:

- Comparative investigation into the performance benefits of customer goal orientation and profit foal orientation.
- Longitudinal investigation over a 15 year timeframe, and not short term investigation as evident in previous research where three years of data was used (Lam, Kraus, & Ahearne, 2010; J.-Y. Lee et al., 2015).
- Two different measures were used, an internal accounting measure of Return on Equity (ROE) and the market based external measure of share appreciation in comparison to previous studies that singularly proved accounting returns or share appreciation separately (Iltner, Larcker, & Taylor, 2009; Ngobo, Casta, & Ramond, 2012).

The author hopes to have stimulated the desire for more robust testing of the theories contained in this research.

7.3.2 Research implications for executives and investors and business leaders

Certain circumstances cause firms to abandon their strategic orientations for supposedly more lucrative profit orientations (Wei, Yao, Jiang, & Young, 2013). In the current economic climate of South Africa with the recent downgrades, therefore instead of survival profit focused survival mode, firms should instead choose customer-focused

business strategies. These create a buffer against economic uncertainty, bounce back effect from downward economic trends and most importantly superior financial performance. This research settles the debate between which orientation results in superior performance and in situations where practitioners are crafting and developing the wrong strategies this research will inform of the strategy that should be pursued.

7.4 Future Research

One has to be cautious in terms of the limitations of the study to the extent that the debate from my perspective would be conclusively resolved with a replication studies in three main different contextualisation's:

- Datasets from other exchanges, Tokyo, London and Shanghai.
- Investigating the performance benefits in other emerging markets, Brazil, China and South Africa.
- Qualitative investigation of all company CEO letters throughout the timeframe and not based on seven year time intervals.

The remaining recommendations are associated with enhancing the findings of this research. The validity of the findings is not in question because a robust methodology was used however, like all research there opportunity to improve exist:

- Account for the impact of other factors such as market size, industry characteristics and company size.
- Restricted by the sample population listed on the S&P500 future researchers should use other qualitative means to determine strategic orientation, such as questionnaires.
- To expand the frame of this study to include more companies, that fall outside the top 160.
- Building on this study by using other financial ratios such as those associated with leverage because debt financing is an important aspect of firm performance.

If those studies can conclusively prove that customer orientation results in superior financial performance benefits then the theory will have to be relevant. That is something for future researchers. This has implications for strategic decision making in the future, company culture and the development of robustness of firms in emerging markets.

7.5 Research Limitations

- Due to the timeframe for this research, the investigator was unable to conduct

the qualitative data collection of coding CEO letters and letters to shareholders for all the companies in the sample frame for each year that they are listed on the S&P500.

- Although a robust methodology was used all research is subject to endogeneity caused by the sampling methodologies.
- The unit of measurement was limited to the accounting measure of Return on Equity and Share appreciation. This combination of measures has encountered in previous research therefore it could be useful to include measures of performance that record intangibles.
- The investigation did not account for other factors that influence performance such as size of the firm, industry characteristics. The results of the study would be enhanced with the scrutinizing the impact of these factors on performance so that the performance measured is purely because of strategic orientation.

7.6 Conclusion

A Customer goal orientation results in superior financial performance than a profit goal orientation. This is the main finding of the research and although the research revealed that a profit orientation causes a loss in value, this is still a significant finding regarding the role of strategic orientations on financial performance. Specifically a good strategy will result in superior profits and a bad strategy will result in value loss. Due to the nature of the variables studied and the importance of supporting enterprise growth in Africa, understanding the dynamics that contribute to financial performance are a significant consideration however ensuring that decision makers are deploying appropriate strategies to stimulate growth is of more importance.

The research used existing goal orientation theory to draw a foundation for the study, then investigated the two constructs separately to improve the knowledge of each principles contribution to financial performance. Numerous studies were conducted before by other scholars linking each construct to financial performance benefits and each scholar argued the superiority of the orientation supported. Therefore to resolve the debate this comparative study was conducted.

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APPENDICES

Appendix 1: Ethical Clearance

**Gordon
Institute
of Business
Science**
University
of Pretoria

17 August 2017

Christabel Ziyambi

Dear Christabel,

Please be advised that your application for Ethical Clearance has been approved.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards

GIBS MBA Research Ethical Clearance Committee

Appendix 2: Master CEO Letters/Letter to Shareholders



“Jeff, what does Day 2 look like?”

That’s a question I just got at our most recent all-hands meeting. I’ve been reminding people that it’s Day 1 for a couple of decades. I work in an Amazon building named Day 1, and when I moved buildings, I took the name with me. I spend time thinking about this topic.

“Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And *that* is why it is *always* Day 1.”

To be sure, this kind of decline would happen in extreme slow motion. An established company might harvest Day 2 for decades, but the final result would still come.

I’m interested in the question, how do you fend off Day 2? What are the techniques and tactics? How do you keep the vitality of Day 1, even inside a large organization?

Such a question can’t have a simple answer. There will be many elements, multiple paths, and many traps. I don’t know the whole answer, but I may know bits of it. Here’s a starter pack of essentials for Day 1 defense: customer obsession, a skeptical view of proxies, the eager adoption of external trends, and high-velocity decision making.

True Customer Obsession

There are many ways to center a business. You can be competitor focused, you can be product focused, you can be technology focused, you can be business model focused, and there are more. But in my view, obsessive customer focus is by far the most protective of Day 1 vitality.

Why? There are many advantages to a customer-centric approach, but here’s the big one: customers are *always* beautifully, wonderfully dissatisfied, even when they report being happy and business is great. Even when they don’t yet know it, customers want something better, and your desire to delight customers will drive you to invent on their behalf. No customer ever asked Amazon to create the Prime membership program, but it sure turns out they wanted it, and I could give you many such examples.

Staying in Day 1 requires you to experiment patiently, accept failures, plant seeds, protect saplings, and double down when you see customer delight. A customer-obsessed culture best creates the conditions where all of that can happen.

Resist Proxies

As companies get larger and more complex, there’s a tendency to manage to proxies. This comes in many shapes and sizes, and it’s dangerous, subtle, and very Day 2.

A common example is process as proxy. Good process serves you so you can serve customers. But if you’re not watchful, the process can become the thing. This can happen very easily in large organizations. The process becomes the proxy for the result you want. You stop looking at outcomes and just make sure you’re doing the process right. Gulp. It’s not that rare to hear a junior leader defend a bad outcome with something like, “Well, we followed the process.” A more experienced leader will use it as an opportunity to investigate and improve the process. The process is not the thing. It’s always worth asking, do we own the process or does the process own us? In a Day 2 company, you might find it’s the second.

Another example: market research and customer surveys can become proxies for customers – something that’s especially dangerous when you’re inventing and designing products. “Fifty-five percent of beta testers report being satisfied with this feature. That is up from 47% in the first survey.” That’s hard to interpret and could unintentionally mislead.

Good inventors and designers *deeply* understand their customer. They spend tremendous energy developing that intuition. They study and understand many anecdotes rather than only the averages you'll find on surveys. They *live* with the design.

I'm not against beta testing or surveys. But you, the product or service owner, must understand the customer, have a vision, and love the offering. Then, beta testing and research can help you find your blind spots. A remarkable customer experience starts with heart, intuition, curiosity, play, guts, taste. You won't find any of it in a survey.

Embrace External Trends

The outside world can push you into Day 2 if you won't or can't embrace powerful trends quickly. If you fight them, you're probably fighting the future. Embrace them and you have a tailwind.

These big trends are not that hard to spot (they get talked and written about a lot), but they can be strangely hard for large organizations to embrace. We're in the middle of an obvious one right now: machine learning and artificial intelligence.

Over the past decades computers have broadly automated tasks that programmers could describe with clear rules and algorithms. Modern machine learning techniques now allow us to do the same for tasks where describing the precise rules is much harder.

At Amazon, we've been engaged in the practical application of machine learning for many years now. Some of this work is highly visible: our autonomous Prime Air delivery drones; the Amazon Go convenience store that uses machine vision to eliminate checkout lines; and Alexa,¹ our cloud-based AI assistant. (We still struggle to keep Echo in stock, despite our best efforts. A high-quality problem, but a problem. We're working on it.)

But much of what we do with machine learning happens beneath the surface. Machine learning drives our algorithms for demand forecasting, product search ranking, product and deals recommendations, merchandising placements, fraud detection, translations, and much more. Though less visible, much of the impact of machine learning will be of this type – quietly but meaningfully improving core operations.

Inside AWS, we're excited to lower the costs and barriers to machine learning and AI so organizations of all sizes can take advantage of these advanced techniques.

Using our pre-packaged versions of popular deep learning frameworks running on P2 compute instances (optimized for this workload), customers are already developing powerful systems ranging everywhere from early disease detection to increasing crop yields. And we've also made Amazon's higher level services available in a convenient form. Amazon Lex (what's inside Alexa), Amazon Polly, and Amazon Rekognition remove the heavy lifting from natural language understanding, speech generation, and image analysis. They can be accessed with simple API calls – no machine learning expertise required. Watch this space. Much more to come.

High-Velocity Decision Making

Day 2 companies make high-quality decisions, but they make high-quality decisions *slowly*. To keep the energy and dynamism of Day 1, you have to somehow make high-quality, *high-velocity* decisions. Easy for start-ups and very challenging for large organizations. The senior team at Amazon is determined to keep our decision-making velocity high. Speed matters in business – plus a high-velocity decision making environment is more fun too. We don't know all the answers, but here are some thoughts.

First, never use a one-size-fits-all decision-making process. Many decisions are reversible, two-way doors. Those decisions can use a light-weight process. For those, so what if you're wrong? I wrote about this in more detail in last year's letter.

¹ For something amusing, try asking, "Alexa, what is sixty factorial?"

Second, most decisions should probably be made with somewhere around 70% of the information you wish you had. If you wait for 90%, in most cases, you're probably being slow. Plus, either way, you need to be good at quickly recognizing and correcting bad decisions. If you're good at course correcting, being wrong may be less costly than you think, whereas being slow is going to be expensive for sure.

Third, use the phrase "disagree and commit." This phrase will save a lot of time. If you have conviction on a particular direction even though there's no consensus, it's helpful to say, "Look, I know we disagree on this but will you gamble with me on it? Disagree and commit?" By the time you're at this point, no one can know the answer for sure, and you'll probably get a quick yes.

This isn't one way. If you're the boss, you should do this too. I disagree and commit all the time. We recently greenlit a particular Amazon Studios original. I told the team my view: debatable whether it would be interesting enough, complicated to produce, the business terms aren't that good, and we have lots of other opportunities. They had a completely different opinion and wanted to go ahead. I wrote back right away with "I disagree and commit and hope it becomes the most watched thing we've ever made." Consider how much slower this decision cycle would have been if the team had actually had to *convince* me rather than simply get my commitment.

Note what this example is not: it's not me thinking to myself "well, these guys are wrong and missing the point, but this isn't worth me chasing." It's a genuine disagreement of opinion, a candid expression of my view, a chance for the team to weigh my view, and a quick, sincere commitment to go their way. And given that this team has already brought home 11 Emmys, 6 Golden Globes, and 3 Oscars, I'm just glad they let me in the room at all!

Fourth, recognize true *misalignment* issues early and escalate them *immediately*. Sometimes teams have different objectives and fundamentally different views. They are not aligned. No amount of discussion, no number of meetings will resolve that deep misalignment. Without escalation, the default dispute resolution mechanism for this scenario is exhaustion. Whoever has more stamina carries the decision.

I've seen many examples of sincere misalignment at Amazon over the years. When we decided to invite third party sellers to compete directly against us on our own product detail pages – that was a big one. Many smart, well-intentioned Amazonians were simply not at all aligned with the direction. The big decision set up hundreds of smaller decisions, many of which needed to be escalated to the senior team.

"You've worn me down" is an awful decision-making process. It's slow and de-energizing. Go for quick escalation instead – it's better.

So, have you settled only for decision quality, or are you mindful of decision velocity too? Are the world's trends tailwinds for you? Are you falling prey to proxies, or do they serve you? And most important of all, are you delighting customers? We can have the scope and capabilities of a large company and the spirit and heart of a small one. But we have to choose it.

A huge thank you to each and every customer for allowing us to serve you, to our shareowners for your support, and to Amazonians everywhere for your hard work, your ingenuity, and your passion.

As always, I attach a copy of our original 1997 letter. It remains Day 1.

Sincerely,

Jeff



Jeffrey P. Bezos
Founder and Chief Executive Officer
Amazon.com, Inc.



To Our Shareholders,

In most respects, 2016 was one of the most challenging years the oil and natural gas industry has seen in recent memory. Yet for Anadarko, it was a year that provided a tremendous opportunity to demonstrate how leaning on our culture, core values, proven track record and value-creation approach could generate positive change that I believe will provide benefits for years to come.

During 2016, we focused on preserving value and positioning for the future and, frankly, we achieved what few thought we could. First, we lowered our cost structure by about \$800 million dollars on an annual basis going forward. Second, we refocused our U.S. onshore portfolio by concentrating on our premier positions in the oil-prone Delaware Basin in West Texas and DJ Basin in northeast Colorado. Third, in the process of high-grading our portfolio, we closed more than \$4 billion of asset divestitures during the year, which helped to bolster our cash position and significantly strengthen our balance sheet. Fourth, our improved financial flexibility enabled us to move quickly and to complete an immediately accretive deepwater Gulf of Mexico property acquisition viewed as the transaction of the year by many energy-industry observers. And fifth, we were successful on seven of the eight deepwater exploration and appraisal wells we drilled during the year, including identifying new potential tieback opportunities in the Gulf of Mexico.

As we look ahead, we expect to continue to demonstrate financial discipline by investing within cash inflows, enhancing our wellhead margins and driving further efficiency improvements across our operating areas. We also anticipate further strengthening our cash position by receiving an additional \$3.5 billion of proceeds from the previously announced divestitures of our Marcellus and Eagleford shale assets.

In 2017, we will continue to transfer the successful development model we employed in the DJ Basin, which centered on close alignment between our upstream activities and midstream expansions, to the exciting growth opportunity we have in the Delaware Basin. As a result of the property acquisition in the Gulf of Mexico, we are now the operator of the largest array of deepwater floating facilities in the Gulf. When you combine this enhanced position and high-margin oil production with our international oil-producing assets in Algeria and Ghana, we expect to generate substantial free cash flow in the intermediate term to support the growth of our U.S. onshore assets, resulting in a company-wide, five-year compounded annual growth rate in oil production of more than 15 percent. In addition, we maintain the material upside opportunities provided by our industry-leading deepwater exploration program and emerging LNG business.

I am incredibly proud of the achievements mentioned above, as well as the safe and environmentally protective manner in which each was accomplished. Furthermore, I am deeply thankful for the tireless efforts of our employees. Their talent and determination, coupled with an improving commodity market, enable us to enter 2017 with a bright future. As a result, I believe Anadarko is better positioned today to deliver value than at any time in the 11-plus years I have been at the company. Thank you for your investment in Anadarko.

Sincerely,

R. A. Walker

Chairman, President and CEO



Appendix 3: Qualifying Firms in the Sample and Related Constructs

S&P 500 Index | Index Constituents Analysis | Thomson Reuters Eikon

25-Oct-2017 11:49

Index Constituents Analysis

Report: Index Sector

1 - 505 of 505

Sector Market Cap		
Sector - TRBC	USD	Percent
Technology	192 424 050 000,00	4,19%
Financials	523 324 965 353,64	11,41%
Healthcare	1 234 395 230 278,55	26,68%
Consumer Cyclical	536 087 086 647,14	11,68%
Industrials	401 227 971 816,15	8,74%
Consumer Non-Cyclical	683 785 442 206,28	14,90%
Energy	650 814 704 102,95	14,18%
Utilities	123 997 201 084,13	2,70%
Basic Materials	38 285 146 122,30	0,83%
Telecommunications Services	214 040 400 000,00	4,66%
Total	4 588 382 097 611,14	100,00%

Sector Change		
Sector - TRBC	Mkt Cap Chng(USD)	Mkt Cap % Chng
Basic Materials	4 344 684 861,38	0,65%
Industrials	14 392 947 345,71	0,59%
Financials	20 523 100 889,77	0,50%
Energy	3 103 747 948,38	0,23%
Consumer Cyclical	4 562 956 870,60	0,15%
Utilities	573 911 721,45	0,08%
Technology	3 902 530 586,90	0,06%
Consumer Non-Cyclical	-7 168 388 632,02	-0,34%
Healthcare	-16 736 987 225,72	-0,53%
Telecommunications Services	-2 604 848 053,60	-0,61%
Total	24 893 656 313,85 --	

4,193723319

Matched	14,39%
Comparable	25,65%
No Match	59,96%

Name	RIC	Market Cap (USD)	Orientation	ACSI	Cost management practices	customer equity	customer relationship	Customer Satisfaction	Customer Value	Down Stream Value Chain Management	Inter-Functional Coordination	Margin decisions	None	Pricing Decisions	Production decisions	Profit Maximization	Scaling decisions
Technology		6 214 298 635 751,99															
Intel Corp	INTC.OQ	192 424 050 000,00	PO	0	0	0	0	0	1	0	0	0	0	0	0	3	0
Financials		4 142 688 023 446,05															
JPMorgan Chase & Co	JPM.N	355 133 888 257,20	CO	0	7	0	0	0	4	0	1	2	3	0	1	0	0
PNC Financial Services Group Inc	PNC.N	66 049 038 235,18	CO	0	1	0	0	0	4	0	1	0	3	0	0	0	0
American International Group Inc	AIG.N	58 838 812 003,53	PO	0	2	0	0	0	1	0	0	0	2	0	0	2	0
Marsh & McLennan Companies Inc	MMC.N	43 303 226 857,73	CO	0	0	0	0	0	4	0	1	0	0	0	0	0	4
Healthcare		3 129 071 471 817,32															
Johnson & Johnson	JNJ.N	380 161 721 473,92	PO	0	0	0	0	0	1	0	0	1	0	0	1	9	2
Pfizer Inc	PFE.N	215 992 414 325,61	CO	0	0	0	0	0	2	0	0	0	0	0	0	0	0
Merck & Co Inc	MRK.N	172 123 332 397,40	PO	0	1	0	0	0	0	0	0	0	4	0	0	0	0
Amgen Inc	AMGN.OQ	131 611 438 806,01	CO	0	0	0	0	0	1	1	0	0	1	0	0	0	0
Bristol-Myers Squibb Co	BYN.N	104 381 318 287,90	CO	0	0	0	0	0	3	1	0	0	0	0	0	0	0
Eli Lilly and Co	LLY.N	93 771 228 360,48	PO	0	2	0	0	0	0	0	0	1	0	0	0	1	0
Thermo Fisher Scientific Inc	TMO.N	77 536 516 746,54	CO	0	0	0	0	0	9	1	1	0	4	0	1	1	2
Cigna Corp	CI.N	48 817 259 880,69	CO	0	0	0	0	0	10	4	15	0	1	0	0	0	0
Consumer Cyclical		2 957 445 934 958,80															
Home Depot Inc	HD.N	195 719 083 471,52	CO	0	0	0	0	0	3	0	2	0	1	0	0	0	0
Nike Inc	NKE.N	87 155 715 705,84	CO	0	0	0	0	0	3	1	2	0	3	0	2	0	1
Lowe's Companies Inc	LOW.N	67 591 036 447,64	CO	0	0	1	1	1	1	0	0	0	0	0	1	0	1
Twenty-First Century Fox Inc	FOXA.OQ	48 056 847 353,19	CO	0	0	0	0	0	4	0	1	0	0	0	0	0	0
Ford Motor Co	F.N	48 415 695 168,79	PO	0	0	0	0	0	0	0	0	0	0	0	0	2	0
TDX Companies Inc	TDX.N	45 646 314 049,34	CO	0	0	0	0	0	3	0	0	0	0	0	0	0	0
Marriott International Inc	MAI.OQ	43 502 394 450,82	PO	0	1	0	0	0	0	0	0	0	0	0	0	0	1
Industrials		2 455 156 987 330,01															
Honeywell International Inc	HON.N	111 317 543 590,76	PO	0	0	0	0	0	0	0	1	1	0	0	0	2	1
Lockheed Martin Corp	LMT.N	90 184 339 374,75	CO	0	1	0	0	0	7	4	0	0	0	0	1	0	0
Caterpillar Inc	CAT.N	81 696 078 766,08	PO	0	4	0	0	0	2	1	0	0	0	0	0	1	0
General Dynamics Corp	GD.N	63 509 858 968,16	PO	0	0	0	0	0	0	0	0	0	0	0	0	3	0
Illinois Tool Works Inc	ITW.N	54 520 151 116,40	PO	0	1	0	0	0	0	0	0	3	0	0	0	1	1
Consumer Non-Cyclical		2 109 293 350 163,63															
Wal-Mart Stores Inc	WMT.N	262 814 000 551,14	CO	0	0	0	1	0	5	0	0	0	1	0	0	0	1
Procter & Gamble Co	PG.N	220 664 613 798,40	PO	0	2	0	0	0	4	0	0	1	2	0	2	4	1
Altria Group Inc	MO.N	123 037 742 881,46	PO	0	0	0	0	0	0	0	0	0	1	0	0	3	0
CVS Health Corp	CVS.N	77 269 084 975,28	PO	0	2	0	0	0	1	1	0	4	3	0	0	4	1
Energy		1 338 775 236 764,19															
Exxon Mobil Corp	XOM.N	353 671 223 463,16	PO	0	0	0	0	0	0	0	0	0	0	0	0	1	0

Chevron Corp	CVX.N	225 941 170 609,47 PO	0	4	0	0	0	0	0	0	1	0	0	0	0	0
Halliburton Co	HAL.N	36 057 902 111,70 CO	0	1	0	0	0	0	3	0	1	0	1	0	0	0
Baker Hughes A GE Co	BHGE.N	35 144 407 918,62 PO	0	1	0	0	0	0	0	0	0	0	1	0	1	3
Utilities		697 689 056 682,46														
NextEra Energy Inc	NEE.N	72 365 319 760,58 CO	0	0	0	0	0	1	0	0	0	0	2	0	0	0
Dominion Energy Inc	D.N	51 631 781 323,55 CO	0	0	0	0	0	2	3	0	0	0	0	0	0	0
Basic Materials		672 433 454 393,77														
Ecolab Inc	ECL.N	38 285 146 122,30 CO	0	1	0	0	0	0	5	0	0	0	1	0	0	1
Telecommunications Services		423 986 303 180,14														
AT&T Inc	T.N	214 040 400 000,00 CO	0	0	0	1	0	0	3	0	1	0	0	0	0	1

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Appendix 4: Consistency Matrix

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Table 11: Consistency Matrix

Questions	Literature Review	Data Collection Tool	Analysis
<p>Which orientation will result in superior financial benefits between profit orientation and a customer orientation?</p>	<ul style="list-style-type: none"> • Drucker, 1954; H. A. Simon, 1959; • Friedman, 1970b; • Kohli & Jaworski, 1993; • Slater & Narver, 1994 • Berthon, Mac Hulbert, & Pitt, 2004; • Che-ha, Mavondo, & Mohd-said, 2014; • Feng, Sun, Zhu, & Sohal, 2012; • Gatignon & Xuereb, 1997; Ittner, Larcker, & Randall, 2003; • Menguc & Boichuk, 2012; Roberts, 2013; • Seijts, Latham, Tasa, Latham, & Journal, 2011; • Shahriar, Schwarz, & Newman, 2016; • Sims & Boytell, 2015; 	<p><u>Qualitative</u></p> <ul style="list-style-type: none"> • Company websites • Annual Reports.com <p><u>Quantitative</u></p> <ul style="list-style-type: none"> • Thomson Reuters Eikon Datastream 	<p><u>Qualitative</u></p> <ul style="list-style-type: none"> • Content analysis of CEO letters to determine strategic orientation <p><u>Quantitative</u></p> <ul style="list-style-type: none"> • Paired T-test to determine financial performance according to ROE • Quasi-style engine time series data analysis

Tajeddini, 2010;

- Tang, 2014;
- VandeWalle, Ganesan,
Challagalla, & Brown, 2000