

CORPORATE GOVERNANCE AND MARKETING GOALS

How is Corporate Governance utilized to meet the Strategic Marketing Goals of an
Organization?

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Marketing is a field of business administration which is often looked upon with suspicion by many recipients of marketing messages. This is because through marketing techniques, several marketers have in the past, and still do, hoodwinked unsuspecting consumers. In recent times, however, the concept, philosophy and practice of corporate governance has taken roots in the same field of business, given the fact that today's customer is more informed and more demanding, not to mention the fact that recent times have seen a rise in the number of consumer rights activists. In order to explore the relationship between corporate governance and achievement of strategic marketing goals, let us first present for the readers a working definition of the terms corporate governance, and strategic marketing.

Defining Corporate Governance

Dr. Rodolfo Apreda, a professor and director of Study of Private and Public Governance at the University of Cema, Buenos Aires, Argentina, usually refers to a functional definition of the term Corporate Governance which serves educational purposes, because he believes that the subject and field of corporate governance is still in its developmental and research phases, and thus is too young and immature to be defined in a definite, scientific manner. The definition he used in the book "Corporate Governance", (which he co-authored with Alexandra N. Kostyuk and Udo C. Braendle), is stated below as per his foreword in this book:

"...it is a field of learning and practice about organizations concerned with the Founding Charter, the ownership structure, control and decision rights, the role of the Board of Directors and the Management, the conflicts of interests that arise from the interrelationships of owners, directors, managers, creditors and, to a lesser extent other stakeholders, the regulatory and reputational

environments, as well as the avoidance of rent-seeking, soft-budget constraints and tunneling.” (Apreda, 2005).

Apreda believes that this functional definition “highlights the main tasks and problems” which Corporate Governance deals with (Apreda et al, 2005).

This definition highlights, in our opinion, all the stakeholders who are affected by and can affect the practice of corporate governance. It also covers the major issues which corporate governance attempts to address. However, for the sake of this paper, we feel the need to use a few more definitions before we can move on to the definition of Strategic Marketing and the link between the two, especially in the pursuit of the strategic marketing objectives of an organization.

According to the Manual of Corporate Governance by the Securities and Exchange Commission of Pakistan, (SECP), there are several definitions available as per different sources, such as the Organization of Economic Cooperation and Development, the International Chamber of Commerce, and Kenneth Scott from Stanford Law School. However, the common factors in most of the definitions are the issues of “trust, transparency, and accountability” (Manual of Corporate Governance, pp. 5) which are looked into when an organization and its individuals make decisions necessary to run the business.

What we understand of corporate governance from this basic discussion given in the book by Apreda et al and this manual is that corporate governance can be understood as both a practice as well as a philosophy. It is a set of underlying principles (positive and ethical in nature) based on which an organization runs itself. Furthermore, these underlying principles are not only translated into the strategic business intent, but also in the values which then help shape the culture of the organization. Thus, corporate governance is not something which is done only on the top, or only by a certain department. Rather, it is something to be followed by everyone in the organization. It helps guide the actions of all

individuals in the organization on a daily, monthly, and annual basis. Furthermore, it also helps guide the relationships between the organization and its partners (such as suppliers, distributors, and other corporate partners), so that the principles and philosophy of the organization following corporate governance rub off on these partner organizations as well.

So what is this set of principles that make up the philosophy of a well governed corporation? As per our understanding through the academic environment, this set need not be exactly same in all the organizations that follow corporate governance. However, the specific values which each of these organizations make visible to their employees and partners emanate from the same basic guidelines the background to which has been well discussed above. That is, these values, though they might differ from company to company in their final guise, follow certain common underlying philosophies. These philosophies are based in honesty and integrity, and in the pursuit of mutual benefits between the organization and all those it deals with. These philosophies are linked to basic ethical values which are universal.

The stakeholders of any organization following corporate governance include not only the shareholders and the customers, but also the management/employees, business partners, the government, and the society in general in which this organization operates. That is, through such corporate governance, the organization tries to ensure that most of the needs of all stakeholders are satisfied and never at the expense of the rights of another stakeholder group. Furthermore, these stakeholders are usually specifically identified in the company's mission and other corporate statements and artifacts, whether explicit or implicit, if the company is a believer of corporate governance.

Defining Strategic Marketing

Strategic Marketing is a term which is both a concept/philosophy, and a practice, just like the term 'corporate governance' is. Before we define strategic marketing,

however, let us revisit the definition of strategy itself. According to Mahnaz Fatima, a professor at the Institute of Business Administration, Karachi, strategy needs to be understood from several aspects before its concept takes roots in our minds. Furthermore, strategy gets defined in action – that is, it gets defined as it gets implemented.

Nevertheless, for the sake of this paper, several definitions of strategy have been mentioned. For instance, Peter F. Drucker defines strategy as competitive strategy instead, his focus being on competition, “It means deliberately choosing a different set of activities to deliver a unique mix of value”, (HBS Press, 1986). Another important aspect to strategy has been given to us by Mehnaz Fatima again, borrowing from Socrates, in that “...strategy is effective utilization of resources in order to meet one’s objectives”, (Fatima, 1994, pp. 21).

Strategy according to Henry Mintzberg again has several definitions, the three more common ones being, according to his book *The Rise and Fall of Strategic Planning*, that “strategy is a plan” and answers the question of ‘how’ (to achieve the vision that the company has set its eyes upon), that strategy “...is a pattern of actions over time”, and that strategy “...is position, that is, it reflects decisions to offer particular products or services in particular markets”, (Mintzberg, 1994). If you notice, the second definition of strategy which Mintzberg commonly uses coincides with Mehnaz Fatima’s belief that strategy gets defined in action. However, it is the third definition of strategy which Mintzberg commonly uses which leads us to a better understanding of strategic marketing in its simplest forms. That is, strategic marketing can be thought of as the practice of making strategic decisions when it comes to the marketing of a company’s own brand name and its products (and/or services).

Businessdictionary.com defines strategic marketing as “Identification of one or more sustainable competitive advantages a firm has in the market it serves (or intends to serve), and allocation of resources to exploit them”, (the emphasis being on the following

terms: sustainable competitive advantage, market, serves, and allocation of resources) (businessdictionary.com, 2011). While this may not be an entirely professional source to look to, it does provide an opportunity to further drive home the point: this definition covers not just our understanding of the term, but also borrows from Peter Drucker's definition of strategy by focusing on competition and sustainable competitive advantage. It also borrows from Mehnaz Fatima and Socrates by emphasizing the utilization of resources to meet objectives. Strategic marketing, then, is, like said earlier, the practice of making strategic marketing decisions.

Strategic Marketing Goals

Deriving from the above concept, then, strategic marketing goals are those which help, or are intended to assist marketers in achieving their marketing goals by utilizing their resources creatively (to gain maximum benefit out of minimal possible resources), and by utilizing their competitive advantage in serving their customers better than competition can. Further marketing goals emanating from this basic goal relate to increased sales, greater market share, and so on and so forth.

Linking Corporate Governance and Strategic Marketing

For the purpose of this paper, we are presenting to you our arguments and conclusions based on the assumption that the hypothetical organizations under discussion here are those which know, understand and indulge in strategic marketing as defined and described above. That is, the organizations we talk about are not simply practicing marketing without understanding its full potential; rather they are implementing marketing techniques which are strategic in nature. These organizations have aligned their marketing goals with the organization's business goals, take their competition into account in the pursuit of their goals and objectives, and have both a futuristic and realistic approach towards their vision.

In light of the above definitions which we have selected for the purpose of this paper, we have hoped to make it easier for the reader to imagine the possible links between the two. For instance, we have hoped to identify to the reader something which we as marketing faculty members and students consider to be a given for marketers: the fact that better business practices (such as those based in the values of honesty and integrity) only help to build a brand, and thus help a brand build a relationship of trust with its customers. That is, once a marketer knows what corporate governance and strategic marketing are, s/he should be able to see a brief glimpse into how the two are linked through the contribution of corporate governance towards the achievement of strategic marketing goals. In yet simpler words, practicing the guidelines of corporate governance, as defined and described above, helps an organization build its own credibility – its customers grow to trust its promises and actions, and thus are more readily inclined to enter into business relationships with this organization as compared to one which does not follow good corporate governance in the pursuit of their strategic marketing goals.

How Corporate Governance can help Achieve Strategic Marketing Goals

There are several ways in which corporate governance proves to be of great benefit to a company. Some of these major benefits are discussed below, explaining how corporate governance facilitates the achievement of a company's strategic marketing objectives.

One of the first major ways in which a company can use corporate governance to its advantage is by ensuring the engagement and maintenance of its employees. This is done through employee empowerment, delegation, and enrichment. Such investment and trust in the employees, coupled with the development and implementation of efficient labor standards and information sharing, helps employees own the company as their own, and thus become more productive

Furthermore, in the same spirit, transparency and leadership through example (especially by the top management) are the cornerstones of ensuring this engagement of employees. One way in which organizational culture, as we all are aware, is developed when middle and lower level employees observe the top management's behavior, and tend to replicate it. Therefore, it is essential that the leadership in the organization sets examples in line with the outcomes desired. Such transparency not only ensures the development and sustainability of trust, it also helps with information sharing, and thus decisions made are more informed and in turn contribute to the success of strategic marketing goals again.

Moreover, good corporate governance increases innovation and learning. It has been observed that good corporate governance in Pakistan has led to an increase in creativity and product development in Pakistan. Also, in order to compete more efficiently, more and more companies have been seen to participate in alliances, joint ventures and the likes, (Shah, na). This innovation and learning also goes hand in hand with another process of corporate governance, which is to better understand customers so that the reason for being of the organization (to meet customers' needs and wants) is fulfilled. In pursuing the completion and continuation of this process, corporate governance helps meet strategic marketing goals of customer knowledge and customer satisfaction as well. Such customer focus will also lead to goodwill in the market in terms of perception and likeability at the consumers' end. A company favored by masses will cause an increase in the demand for its products resulting in obtaining a greater chunk of the market, thus achieving yet another market goal.

Some other ways in which good corporate governance helps in general as well, include securing investor confidence and easier access to finance, and (eventual) increased shareholder value. As companies are better regulated, more transparent in their operations and communications, and follow greater legal fortification, investors place greater

utility on such companies due to reduced risk (Sengupta, na), which in turn results in capital appreciation and increased shareholder worth, (La Porta et al, 2000).

Conclusively speaking, corporate governance enables a company to improve and enhance its reputation, and build goodwill, which helps it to meet not only strategic marketing goals, but also to achieve overall organizational success.

Utilization of Corporate Governance to achieve Strategic Marketing Goals

Broadly speaking, corporate governance can be utilized in numerous ways to achieve strategic marketing goals. These include setting company direction, defining performance metrics, tying employee performance to organizational performance, and adopting governance methods to marketing management.

1. Setting Company Direction

In an era when the customer is king and customer satisfaction dictates the way businesses ought to be run, it is essential for the Board of Directors of an organization to ensure that at the strategic level, the firm defines its goals in terms which are easy to understand by everyone throughout the organization, as well as are easy to measure. Examples include the number of satisfied customers, or a metric that derives from customer satisfaction. This is necessary firstly because defining the organization's mission in terms of customer satisfaction enables internal stakeholders to recognize the significant role customers play in increasing or decreasing the organization's profitability. Secondly, since functional goals are derived from the broadly defined organizational goals, alignment of functional goals with customer needs and business goals becomes possible even if the functions themselves share a traditional outlook towards goal setting. Setting organizational goals to strategic marketing objectives allows all employees, other than those engaged directly in marketing, to stay focused on the customer, thus striving consistently to provide increased

value to customers as the company's end objective. Setting company direction also implies including the input of marketing in strategy formulation for the company.

2. Defining Performance Metrics

Following the discussion on organizational and functional objectives with respect to strategic marketing goals, the next phase in corporate governance involves establishing performance metrics coherent with the goals set. This implies that even functional performance metrics should be derived from strategic marketing goals. An example is P&G Pakistan where performance measures even for support functions, such as External Relations and Human Resources, revolve around improving customer satisfaction. Employees in the HR department, for instance, typically measure their annual performance in terms of employee wellness and improved productivity as a result of their projects where employees are their internal customers and their improved productivity in turn culminates in end customer satisfaction. Such performance measures help the company to keep grounded to its mission of "Improving Lives" by ensuring that both internal and external stakeholders are satisfied. Furthermore, such performance metrics are tangible and ensure that employees in support functions do not exist to just process data or in a clerical capacity, but are active participants in the pursuit of the company's goal towards improving profitability through customer satisfaction instead of being redundant or a financial burden on the organization.

3. Tying Employee Performance to Organizational Performance

One of the most popular methods for eliminating chances of the principal-agent dilemma is to tie management performance with organizational performance. A recommended way of doing this is to implement Employee Stock Option Programs which provides managers with the opportunity to own shares in the company thereby making them external stakeholders as well. Most MNCs and large corporations like Engro in Pakistan have such programs in place in order to ensure that managers try to improve the company's brand

value so as to benefit from increased stock value. As a company's brand value increases, investors become more willing to pay a premium for its shares. The practice of corporate governance helps achieve this end by creating a visible and believable perception of the company's subscription to good governance. It also helps develop a visible link between the company's efforts and its success as it continually delivers on its promises, if not outperforms established goals of customer satisfaction and shareholder value.

4. Applying Governance Methods to Marketing Management

Inverting the spectrum, the marketing function that actually sets the strategic marketing bandwagon in motion can also utilize corporate governance mechanisms in order to achieve functional goals. Working in a marketing centric organization helps. However, even if the organization itself is not market-centric as is the case in most family-owned businesses in Pakistan, and instead focuses on maximizing shareholder return on investment, marketers can take from ethical business management practices within the organization to build sustainable competitive advantage to optimize resources. For instance, marketers can increase brand value by a disciplined utilization of resources such that marketing costs are minimized while return on investment is optimized. By holding return on investment as a performance measure, they can, once again, ensure that functional goals are aligned with the business' goal of maximizing shareholder value. However, the expenditure perspective aside, marketing planning as an essential component of strategic marketing also needs to be accurate given the policies and procedures that help in acquiring information.

Pakistani Organizations NOT following Corporate Governance

Since it is difficult to come up with ready examples of Pakistani organizations which believe in and openly practice their business in light of corporate governance, it has been chosen to first highlight how those (Pakistani) organizations which do not believe in corporate governance and instead openly defy it as a rule of thumb, have fared in their

business. Very ready examples are available at the tip of the fingers of even laymen – KESC (Karachi Electric Supply Corporation), PIA (Pakistan International Airlines, and WAPDA (Water and Power Development Authority), to name a few. You need not go very far to realize that such claims need no professional backing – just ask any citizen of Pakistan what s/he thinks of, say KESC, and they'll automatically dive into a huge sack of complaints and negative feedback.

It is not difficult to see the level of credibility this organization has built, or rather, managed to save. It is also not difficult to imagine how much better off KESC would be if it only put efforts into doing business ethically (emphasis intended on the last three words). It is important to note here where the authors are coming from: we believe that it is an ethical and a moral duty of any given business to meet the basic expectations that its customers have from them; fulfilling the promises it makes, whether explicit or implied, comes under the umbrella of doing business ethically. Corporate governance is a relatively new term coined by the West, but the concepts of doing business ethically have existed in our religion for more than 1400 years now, and so should not be alien to us. Therefore, we need not go very far in imagining what the basic efforts should be which organizations like the Pakistan International Airlines (PIA), Karachi Electric Supply Corporation (KESC) and Water and Power Development Authority (WAPDA) should be employing in order to improve their image and businesses.

Pakistani Organizations following Corporate Governance

Despite the grim picture painted in the few lines above, one cannot ignore the fact that even Pakistani companies are waking up to the need of catering to the demands of more informed customers and more active consumer rights activists. The very bright example is that of Engro Corporation. Aiming to be the first Pakistani MNC when it started out, Engro can be said to have set the bar for other Pakistani companies to at least follow suit, if not out-

do Engro. There are several policy matters which Engro has identified in its mission statement and values, for instance, which highlight how corporate governance is linked to the pursuit of strategic marketing objectives (see Exhibits 2A and 2B in the Appendix section).

Another quite handy example is that of National Foods Pakistan Limited, a local company which is a prime example of how they utilized the principles of good corporate governance in order to achieve, and perhaps even surpass, their strategic marketing goals. For instance, some of the values or practices which they have followed are those of continuous development, consumer orientation and quality (nationalfoods.com). That is, they follow these values during the course of their business and operations, and thus are able to produce good quality products desired by the consumer, using state of the art technology to obtain optimum results, not compromising on the highest quality standards in the process. In addition to these governing values, another very important value in the discussion of this example is that of passion. This relative giant started out in a single small room around two decades ago. The growth was slow in the beginning, with only order of family members and acquaintances being entertained. However, there was no looking back once the opportunity to cater to international markets was highlighted through travellers and expatriates.

Other examples of Pakistani organizations which follow corporate governance can be found in the education sector. One might argue that this is partly due to the fact that, commercial aspect set aside for the time being, educational institutes have the responsibility of providing development and grooming for the children who are enrolled in their programs. But such institutes and schools can certainly lend a few lessons in corporate governance to the corporate world, as they focus on the proper imparting of education (their product-service), which includes inculcating values in the students which help discipline them, and help develop them to become better individuals in the society. Another way to look at the example of schools and other educational institutions is through the lens of managing for all

stakeholders (Harrison et al, 2009), that is, this is one example of business (cum service) whereby several stakeholders are taken into account in the decision making processes, these stakeholders being the owners, the faculty and other staff, the students and their parents, as well as the society in general (including the corporate world to which these students are eventually headed). In this regard, the example of any high school can be taken, such as Generation's School, or the Beaconhouse School System (which is a business organization by definition). In fact, even IBA cannot be ignored, as you can see from its mission statement for MBA (IBA, 2010-11), which is, "To provide the best possible learning and development environment in order to produce world class ethical, competent and socially sensitive business leaders." As more and more firms become aware of the benefits of corporate governance and its benefits, faster economic growth in Pakistan will follow.

Limitations of Corporate Governance

With all the benefits of corporate governance, it is not without its limitations. At the very basic level, it is understood that following corporate governance in economies where short cuts and under the table deals are rampant, is equal to setting oneself back in the short term at least, both in terms of making money as well as in terms of moving forward. In other words, it takes some time before the brand of an organization which believes in doing business the ethical way builds its brand, and during such time, it is bound to lose out on contracts and business with corporations which do not share their values. Nevertheless, this is an issue which time does take care of in due course.

However, there are more serious limitations which one cannot ignore. One of these issues is the fact that corporate governance is best practiced when the people following and propagating it are not any emotional influence, as is the case with family owned businesses (Lister, 2011). That is, since the business is more likely to mean a lot more to the owners if the business is their personal effort and main source of income and reason for

being, they are more likely to take decisions which are less rational. This is likely to lead them off track (from corporate governance) under pressure.

A second limitation of corporate governance can be found in the cost of making such a program effective (Lister, 2011), which can only come through getting such people on board who share a common vision, and will thus invest in a company desirous of following corporate governance. That is, what is needed is funding for such an organization independent of venture capitalists and banks so that the organization is run by those do not have any corrupting powers (Clarke & Branson).

Most importantly, however, the greatest limitation to corporate governance is the fact the change will always be resisted for a long time before adoption is phased in, and not every organization has the 'communication and control architecture' to ease in this practice and mindset, at least not at the speed required by the organization (Clarke & Branson). Nevertheless, there is much work that needs to be done before one can identify a definitive set of drawbacks and opportunities in the field of corporate governance, and efforts are made easier to follow and embark on the journey towards a more ethical and mutually beneficial achievement of strategic marketing goals.

Conclusion

As the world moves towards developing long lasting relationships with customers and organizations become more customer-centric, it is essential that strategic marketing goals be given their due weight in defining a company's overall mission so as to enable an organization's entire machinery to work cohesively towards achieving sustainable business results.

APPENDIX

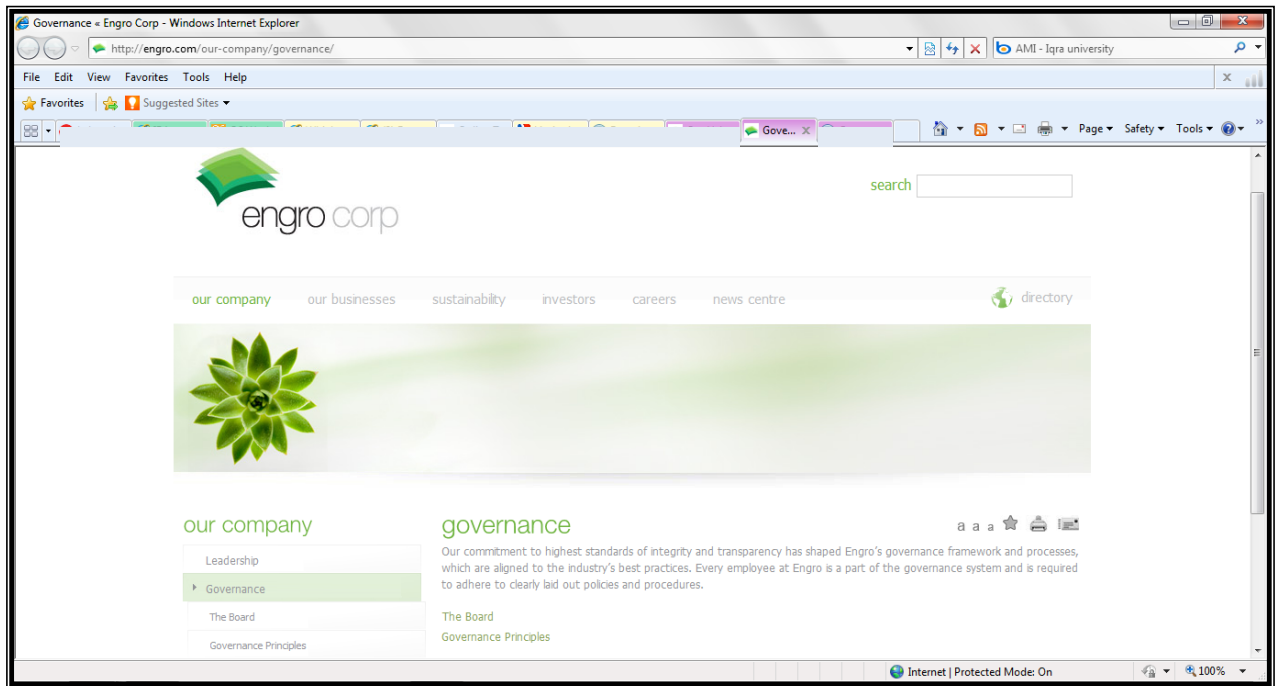


Exhibit 1A: Governance at Engro

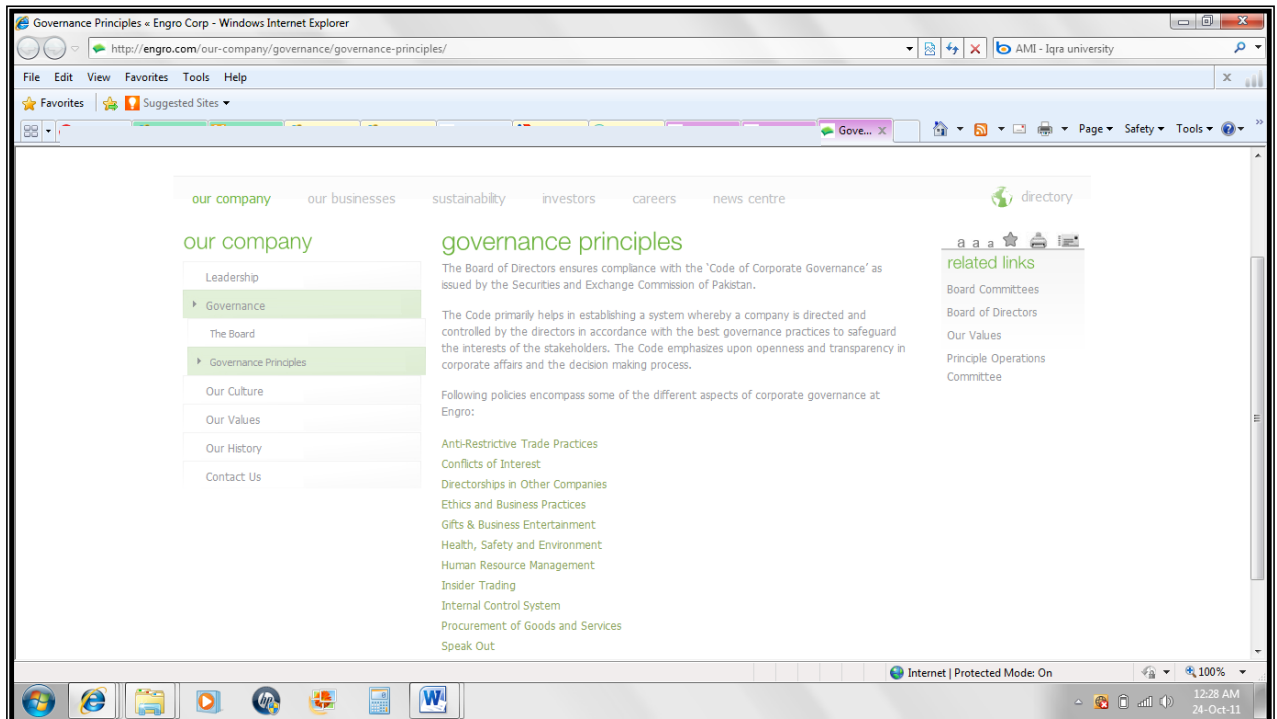


Exhibit 1B: Governance Principles at Engro.

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Further Reading:

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2. The Limitations of Corporate Governance Best Practices, by Shann Turnbull. International Institute for Self-Governance.
3. Creating a Global Business Code, by Carmen Nobel, Published November 14, 2011.

Available at <http://hbswk.hbs.edu/item/6839.html?wknews=11162011> at the time of writing this paper.