2005 AMA Educators’ Proceedings

Enhancing Knowledge Development in Marketing

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Preface and Acknowledgements

San Francisco was the setting for the 2005 AMA Summer Educators’ Conference. Both the conference program and the city provided a stimulating environment for attendees. The conference theme, “Advancing Marketing Theory and Practice,” encouraged participants to examine new approaches to marketing that inspired academics and practitioners alike. The competitive paper sessions and numerous special sessions generated by the Special Interest Groups (SIGs) and the 13 tracks helped ensure that the conference was a tremendous success.

The task of organizing a conference with 80 sessions, featuring more than 450 participants, is daunting. Accomplishing a task of this size and scope requires the dedicated efforts of many people. First, we would like to recognize the people who submitted papers and developed special sessions. This year, we were most impressed by the quality of the competitive papers and sessions that we received. A record number of competitive paper submissions made the review process particularly challenging. Thus, we also would like to acknowledge the more than 500 reviewers who volunteered their time and shared their knowledge to enhance the quality of the program. The presenters, discussants, and session chairs involved in both the competitive and the special sessions were essential to the conference’s smooth execution. The SIGs assumed an active role in developing sessions that were both informative and relevant to their constituents. Furthermore, we recognize Shelby Hunt, Texas Tech University; Dave Stewart, University of Southern California; and P. Rajan Varadarajan, Texas A&M University, who served on our “Blue Ribbon Panel” to select the Best Paper in the Conference.

Anyone who has worked closely with an AMA Educators’ Conference knows that the behind-the-scenes efforts of the track chairs make a conference successful. The track chairs and cochairs have worked for more than a year to encourage submissions, coordinate the review process, build the sessions, and provide support and encouragement for special sessions included in the program. We thank them for their tireless efforts. By track, these people are as follows:

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We thank Denise Smart, AMA Academic Council President, for asking us to chair the conference and for her encouragement and support during that process. We also acknowledge the help of previous conference chairs, Ken Bernhardt, Jim Boles, and especially Pam Ellen, for their help in bringing us up to speed and getting this year’s program launched. Their insights were invaluable. The AMA staff also deserves special recognition for their help and professionalism. In particular, Clara Nelson, Lynn Brown, Francesca Van Gorp Cooley, and Pat Goodrich have kept us on task and on time. We also extend our thanks to Marie Steinhoff, who typeset the proceedings.

We were honored to serve as cochairs for the conference this year. We hope that you enjoy the proceedings.

Beth A. Walker
Arizona State University

Mark B. Houston
University of Missouri, Columbia
Best Papers by Track

Overall Winner
Best Paper in Conference
“Consumer File Sharing of Motion Pictures: Consequences and Determinants”
Victor Henning, Bauhaus–University of Weimer
Thorsten Hennig-Thurau, Bauhaus–University of Weimer

Business-to-Business Marketing and Interorganizational Issues Track
“Managing Multiple Facets of Risk Through Governance Mechanisms: The Case of New Product Alliances”
Ruby Lee, University of Nevada, Las Vegas
Jean Johnson, Washington State University
Rajdeep Grewal, Pennsylvania State University

Channels of Distribution, Retailing, and Supply Chain Management Track
“The Retailer and Focal Supplier Category-Level Outcomes of Focal Supplier Influence and Opportunism”
Neil A. Morgan, University of North Carolina at Chapel Hill
Anna Kalek, Cardiff University
Richard A. Gooner, Scott, Madden & Associates

Consumer Behavior Track
“Earning a Premium Without Changing the Product: Using Price Transparency to Create a Competitive Advantage”
Robert Carter, University of Cincinnati
David Curry, University of Cincinnati

E-Commerce and Technology Track
“Consumer File Sharing of Motion Pictures: Consequences and Determinants”
Victor Henning, Bauhaus–University of Weimer
Thorsten Hennig-Thurau, Bauhaus–University of Weimer

Global and Cross-Cultural Marketing Track
“A Need–Satisfaction View of Antecedents to Organizational Commitment in Early vs. Late Transition Economies: The Moderating Roles of Salesperson Competitiveness and Context”
Cristian Chelariu, York University
Rodney L. Stump, Towson University

Marketing Communications and Branding Track
“Salience Effects of Publicity on Advertised Brand Recall and Recognition”
Hyun Seung Jin, Kansas State University
Jaebeom Suh, Kansas State University
Soontae An, Kansas State University
D. Todd Donavan, Colorado State University

Marketing Education and Teaching Innovation Track
“Assessing Hiring Criteria Across Sales Managers and Sales Representatives: Implications for Marketing Education”
Mary Anne Raymond, Clemson University
Les Carlson, Clemson University
Christopher D. Hopkins, Clemson University

Marketing Research Track
“Market Structure Determination by Analysis of Elasticity Matrix”
S.P. Raj, Syracuse University
Raja Velu, Syracuse University
Joseph B. Richards, Syracuse University

Marketing Strategy and Marketing Management Track
“Customers Are from Venus, Competitors Are from Mars: A Study of the Differential Mechanisms Driving Customer and Competitor Orientation”
Christian Homburg, University of Mannheim, Germany
Marko Groszdanovic, University of Mannheim, Germany
Martin Klarmann, University of Mannheim, Germany

New Product Development, Product Management, and Entrepreneurship Track
“Efficient Identification of Lead Users: Screening vs. Pyramiding”
Eric von Hippel, Massachusetts Institute of Technology
Nikolaus Franke, Vienna University of Economics and Business Administration
Reinhard Prügl, Vienna University of Economics and Business Administration
Public Policy and Ethical Issues Track
“Customer Privacy Protection: An Ethical Orientation and Marketing Control Perspective”
Clinton D. Lanier Jr., University of Nebraska, Lincoln
Amit Saini, University of Nebraska, Lincoln

Sales, Sales Management, and Direct Marketing Track
“A Longitudinal Study of the Consequences of the Changes in Sales Call Frequency in the Supplier–Customer Relationship”
Sergio Roman, University of Murcia, Spain
Pedro J. Martin, University of Murcia, Spain

Services Marketing Track
“Quality of Electronic Services: Conceptualizing and Testing a Hierarchical Model”
Martin Fassnacht, WHU–Otto Beisheim Graduate School of Management
Ibrahim Koese, WHU–Otto Beisheim Graduate School of Management
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PROJECT TEAM’S MARKET KNOWLEDGE COMPETENCE AND NEW PRODUCT PERFORMANCE: THE MEDIATING ROLES OF PROBLEM SOLVING COMPETENCY AND POSITION ADVANTAGE

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Yinghong (Susan) Wei, Oklahoma State University, Tulsa

SUMMARY

A firm’s competitive advantage stems from its ability to develop and market new products that provide solutions to customers’ problems. Emphasizing the role of problem solving in value creation, marketing scholars have long argued that firms are able to develop new products with superior positional advantage and performance largely because of their competencies in finding, understanding, and solving customers’ problems (Day and Wensley 1988; Jaworski and Kohli 1993; Kohli and Jaworski 1990; Lukas and Ferrell 2000; Narver and Slater 1990). Despite this insight into problem-solving competence, marketing scholars have given little explicit consideration to its antecedents and outcomes in product development.

The purpose of this study is to address these research gaps. We believe that because the marketing literature has placed considerable weight, albeit implicitly, on the role of problem-solving competence in the creation of value, examination of its outcomes and market knowledge antecedents is particularly important to this research stream. In this article, we focus on specific new product projects to test a model that posits that problem-solving competence influences new product performance indirectly through positional advantage and that market knowledge competence drives problem-solving competence. We have nine hypotheses:

H1: Problem-solving speed is positively related to (a) product quality and (b) product advantage.

H2: Problem-solving creativity is positively related to (a) product quality and (b) product advantage.


H4: The relationship between problem-solving speed and new product performance is mediated by both product quality and product advantage.


H6: Customer knowledge competence is positively related to (a) problem-solving speed and (b) problem-solving creativity.

H7: Competitor knowledge competence is positively related to (a) problem-solving speed and (b) problem-solving creativity.

H8: The marketing–R&D interface is positively related to (a) problem-solving speed and (b) problem-solving creativity.

H9: The positive relationships between dimensions of market knowledge competence, problem-solving competence, positional advantage and new product performance are stronger when perceived environmental turbulence is low than when it is high.

The results indicate that each dimension of market knowledge competence (customer knowledge competence, competitor knowledge competence, and the marketing–R&D interface) influences new product performance through competing and differential problem-solving dimensions (problem-solving speed and problem-solving creativity) and positional advantage dimensions (product quality and product advantage). The study also reveals that the relative importance of some of these relationships depend on the perceived level of environmental turbulence.

Overall, this study succeeds in uncovering more sophisticated mechanisms through which market knowledge influences new product performance than previously theoretically argued and empirically tested in extant research. The findings may suggest the need for scholars to reevaluate how market knowledge achieved its outcomes in product development. The findings may also provide several conceptual and managerial insights into how best to harness problem-solving competence for value creation and sustainable competitive advantage.
REFERENCES


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MARKET ORIENTATION IN EMERGING FIRMS: DEVELOPING AN APPROPRIATE MEASUREMENT INSTRUMENT AND DETERMINING THE EFFECT ON COMPANY PERFORMANCE

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Florian Heinemann, Aachen University (RWTH), Germany
Andreas Kessell, Aachen University (RWTH), Germany

SUMMARY

The effect of market orientation (MO) on company performance in established companies has been studied for almost two decades. Young firms undoubtedly differ from established companies. Thus far there is no generally accepted, valid, and reliable measurement instrument for MO in emerging firms. With MO being “under researched” in this context, one might even argue, that market-oriented behavior is not appropriate where the market does not understand its needs. A better understanding of MO that accounts for the characteristics of young companies in innovative markets contributes substantially to explaining company performance in emerging firms. We follow a multi-stage process to develop a measurement instrument for market-oriented behavior in emerging firms and then test it in terms of the effect shown on firm performance.

For domain specification we take a behavioral perspective on MO and refer to the three widely used dimensions of market-oriented behavior, i.e., information generation, information dissemination and responsiveness. Based on the literature on emerging firms (as a subset of small and medium-sized firms SME) we develop a set of five liabilities describing organizational inadequacies. While not affecting the three dimensions, the liabilities reduce the existence of behavioral patterns, as overt behavior is driven by individual situations rather than by organizational settings. Moreover, such liabilities lead to behavior that is not relevant in the context of established companies. Results from 20 interviews with experts in the field conducted for domain and item clarification confirm these findings.

In our approach to measure MO, the specific nature of emerging firms is accounted for on two levels: (a) on the item level and (b) by the type of measurement instrument applied. On the item level, we used entrepreneurship literature to add aspects to the validated measurement instrument MARKOR, that capture specific activities of emerging firms. In addition, in order to account for the high variability and individuality of such behavior, it is more appropriate to develop a formative rather than a reflective measurement instrument. Whereas formative indicators are defined as observed variables that cause a latent variable (i.e., in this case MO), reflective indicators are assumed to be influenced by a latent variable.

Data was collected from a national sample of emerging firms in Germany. Firms included in the sample had to be founded at the most five years ago and belong to innovation intensive industries (industry sectors with reported R&D spending of > 3.5 percent of sales and a high percentage of academics among employees). The response rate was 16 percent, which appears to be an acceptable result for SME research. Our data collection rendered a total of 141 usable answers. The questionnaire was composed of a total of 56 items to measure market-oriented behavior and 13 items to assess company performance. Based on the collected data, all measures are submitted to a purification procedure. To develop our measurement instrument of market-oriented behavior we refer to a recommended process of index construction, resulting in a set of 21 reliable and valid items. Our final measurement instrument is composed of 16 items from the original MARKOR 32 scale and 5 new items to capture the specific nature of emerging firms.

Using the partial least square (PLS) structural equation approach to assess the performance effect of the three behavioral dimensions, our index of market-oriented behavior in emerging firms indicates (a) a positive and significant influence of information generation activities, (b) a positive and significant indirect influence of information dissemination activities and (c) a positive and significant influence of responsiveness on firm performance. Overall, the explanatory power of our model is comparatively strong showing an $R^2 = 0.148$ for subjective performance and an $R^2 = 0.198$ for objective performance measures.

In order to further evaluate our measurement instrument of market-oriented behavior, we compare our results to five other models composed of different sets of items and measurement approaches. Omitting the context specific items and/or applying reflective instead of formative measurement leads to lower $R^2$s for performance measures. Moreover, we find fewer significant path coefficients in these control models. Summarizing our findings,
we conclude that adding additional items for capturing the specific nature of emerging firms as well as using a formative measurement instrument is more appropriate for understanding market-oriented behavior in the context of emerging firms.

The results of our study confirm that developing a modified measurement instrument for emerging firms is useful from a research perspective. Furthermore, they indicate conclusions regarding the practical management of emerging firms: rather than being irrelevant MO has to be treated differently in this specific context. Our position with regard to generalizing these findings is still limited. Further research is needed to show that the derived instrument is also applicable for emerging companies in different cultural settings. We would like to encourage further research to broaden the basis of empirical evidence and scope in the understanding of MO in emerging firms. References are available upon request.

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IMPROVISATION IN NEW PRODUCT DEVELOPMENT: THE CONTINGENT ROLE OF MARKET INFORMATION AND MEMORY

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SUMMARY

Change, renewal, and transformation have dominated the discourse of researchers (e.g., Brown and Eisenhardt 1997; Crossan, Lane, and White 1999; Tushman and Benner 2003) and practitioners (e.g., Haeckel 1999; Pascale 1999) the last years. A central issue in this discussion is whether change should be planned to deal with market uncertainty (Orlikowski 1996; Pettigrew 1985). The dominant perspective to this question has advocated that change is orchestrated by managers that analyze information and collect resources well in advance to define clear goals and plan strategies in response to environmental jolts. This deliberate model separates planning and action to assume away uncertainty, which seems to work well in conditions of stability or predictable change. Markets featuring continuous, uncertain, and accelerating change, however, challenge the premises of this model. Little wonder that traditional models of centralized planning (e.g., strategic planning, forecasting) outpaced by rapidly changing and uncertain environments are giving space to emergent forms of change.

Models of emergent change stress that renewal is realized in action in absence of explicit, a priori intentions as change cannot be anticipated or planned (Mintzberg 1987; Weick 1979). Researchers in this stream portray change as situated (Lave 1991), grounded in action and real time learning (Eisenhardt and Tabrizi 1997), an ongoing event (Orlikowski 1996), self-organizing (Starbuck 1976), merging order and disorder (Brown and Eisenhardt 1997) or associated with autonomous processes (Burgelman 1983).

Among all these approaches to emergent change, jazz or theater improvisation has been the most powerful and valuable metaphor for studying emergent action and change in increasingly turbulent markets (Crossan 1998; Kamoche, Cunha, and Cunha 2003; Miner, Bassoff, and Moorman 2001; Weick 1993, 1998). Like in an improvisational theater, improvisational action does not rely on pre-defined roles, not is it a staged event following a preconceived plot. Rather, planning emerges in acting upon market stimuli just like jazz musicians adjust to each other’s music. In advancing these ideas in organizational settings, research views improvisation as the convergence of planning and execution in time (Moorman and Miner 1998). Case studies (e.g., Weick 1993; Orlikowski 1996; Miner et al. 2001) and limited empirical research (Moorman and Miner 1998) have explored the important role of knowledge assets in facilitating or impeding the value of improvisation for learning, adaptation, and change. Against this mounting scientific evidence, research on marketing strategy is still locked in models of centralized planning (for exceptions see Hutt et al. 1988; Moorman and Miner 1998; Slotegraaf and Dickson 2004). Likewise, empirical research on new product development (e.g., Cooper and Kleinschmidt 1986; Henard and Szymanski 2001) echoes strong assertions for the value of prior planning.

My goal is to extend this body of research by addressing its following gaps. First, by examining three distinct new product outcomes of improvisation: cost efficiency, market effectiveness, and exploratory market learning, this paper seeks to explore the multi-faceted impact of improvisation. This expands research on NPD confined to examining the impact of planning on new product success. Attending to the multiple dimensions of new product success is consistent with warnings that improvisation may have different effects on different outcomes (Moorman and Miner 1998b).

Second, the current study focuses on how sources (i.e., external vs. internal) of market information can moderate the value of improvisation. This extends prior research in marketing confined to the direct effect of information processes – acquisition, dissemination, and utilization (e.g., Jaworski and Kohli 1993; Moorman 1995). Moreover, my approach deals with prior research’s claim that the sources of information flows can impact the innovative process (von Hippel 1988; Cohen and Levinthal 1990). Specifically, there is an ongoing discussion in marketing and management science on whether market orientation, in general, and market information, in particular, locks a firm to its current marketing model (Christensen and Bower 1996; Hamel and Prahalad 1991) or helps a firm redefine customer needs and its marketing strategy (Slater and Narver 1999). I contribute to this debate by unfolding the role of two sources of market information flows when NPD teams improvise to achieve cost efficiency, market effectiveness, and exploratory marketing learning.

Third, not only information flows but also knowledge stocks are important for the value of improvisation (Moorman and Miner 1998). Specifically, building on
previous research (Cohen and Bacdayan 1994; Moorman and Miner 1998a), I propose that procedural (routine knowledge) and declarative memory (fact knowledge) affect the relationship between improvisation and product outcomes in distinct ways. I focus on these two types of memory for several reasons. First, firms increasingly formalize new product activities (e.g., ISO systems, stage gate models) into routines and protocols (procedural memory) and computerize prior product designs, customer specifications, or notes from group meetings in intranets (declarative memory) for future use (Griffin 1997; Olivera 2000). Second, I seek to empirically explore prior work confined to either conceptualizing (Moorman and Miner 1998a) the moderating impact of these two memory types or empirically examining the moderating role of memory, in general, on the value of improvisation (Moorman and Miner 1998b).

The results from a survey of NPD projects in the food industry show that internal information strengthens the impact of improvisation on both market effectiveness (measured twice, 12 and 24 months after product launch) and cost efficiency. Second, external information displays a trade-off by reducing the impact of improvisation on cost efficiency but increasing its effect on exploratory marketing learning. Third, procedural memory also exhibits a trade-off by weakening the effect of improvisation on market effectiveness whereas strengthening its effect on cost efficiency. Finally, declarative memory reinforces the impact of improvisation on cost efficiency. These findings add nuances to a growing body of conceptual work and extend rare empirical studies on the role of improvisation vs. planning, capabilities, and knowledge in new product development and marketing strategy. References available on request.
EFFECTIVE SELLING IN RETAIL SALES INTERACTIONS: 
THE MODERATING EFFECT OF CUSTOMER AND 
STORE CHARACTERISTICS 

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SUMMARY

In this era of “hypercompetition” and growth of “e-tailing,” salespeople are traditional retailers’ key advantage. In order to exploit this advantage, retailers need to understand how their salespeople can sell most effectively. Although a substantial amount of research has been directed towards identifying effective sales behaviors over the last 40 years, this research has done little to help salespeople in either categorizing customers and situations or in matching sales strategies and tactics to those customers and situations. Therefore, the aim of this research is to investigate the moderating effect that the selling situation has on the relationship between sales behaviors and a salesperson’s performance in a retail environment. The results will provide insights into context-specific sales approaches and, thus, may assist retail sales managers, trainers, and salespeople in their efforts to enhance selling effectiveness.

As to the conceptual framework underlying this study, the salesperson’s behaviors, i.e., getting customer-related information behaviors, giving product-related information behaviors, and giving choice-related information behaviors, are supposed to influence customer satisfaction in a direct way. The framework also includes two types of moderator variables referred to as “customer-related moderators” and “store-related moderators.” The first of these types includes a customer’s age and gender, the latter includes the presentation of the products and the quantity of the products offered within the store. The inclusion of these moderators is important because they were found to have an impact on the information processing of customers.

An empirical study was carried out using a mystery shopping design for data collection. The sales behavior constructs were measured by formative multiple item scales that were adapted from Reid et al. (2002) and Saxe and Weitz (1982). Consistent with other research works that have investigated the effects of moderator variables, the hypotheses in our study were tested using moderated regression analysis. The findings indicate that effective sales behaviors are dependent upon characteristics of both, the customer and the store. Women prefer salespeople who guide their decision processes, whereas male customers do not like the idea that salespeople influence their buying decision. Also, the results imply that salespeople have to focus on product information when they deal with older customers and when the products are arranged in a clearly structured way. So, salespeople can increase their selling effectiveness by identifying the specific sales situation and adapting properly. References available on request.

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THE RETAILER AND FOCAL SUPPLIER CATEGORY-LEVEL OUTCOMES OF FOCAL SUPPLIER INFLUENCE OPPORTUNISM

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SUMMARY

Following a radical change of strategic thinking, substituting brand oriented management for category management, grocery retailers have not hesitated to delegate a substantial part of category management responsibility to a focal supplier, often displeasing their other supplying partners. A few years later, they are still skeptical of the benefits of that decision. This study attempts to shed light to the impact of focal supplier influence on the relationships of the different parties of the supply network. Drawing on transaction costs and network theory, we synthesize insights from qualitative fieldwork with retailer and supplier managers with primary data from 73 category managers in U.K. supermarket retailers to empirically examine important consequences of focal supplier influence and opportunism in retailer category management efforts. Our data suggests that focal supplier influence increases focal supplier opportunism which in turn increases militant behaviors of the other suppliers. Also, while both focal supplier opportunism and non-focal supplier militant behaviors have a negative effect on category marketing outcomes for the retailer, only non-focal supplier militancy decreases retailer’s category financial outcomes. Surprisingly, none of focal supplier influence, opportunism and non-focal supplier militant behaviors have any impact on focal supplier category outcomes.

Since there are no available secondary data concerning the phenomena of interest in our conceptual model, primary data are required to test our hypotheses. We sought to identify a sample of product-categories that were representative of those in which retailers competed, and that were also comparable across retailers. Trade Dimensions’ 2001 Market Scope lists over 300 supermarket categories and subcategories as separately defined by AC Nielsen (ACN) and Information Resources, Inc. (IRI), the two leading market research vendors to the grocery industry. We identified 42 that exhibited consistency between ACN and IRI in sales volume estimates and descriptions of products comprising each category definition, and that also varied in the magnitude of sales volumes between the categories. We reviewed these 42 product-category definitions and descriptions with 4 senior category managers at different supermarket chains. These managers suggested dropping 7 of these categories as being relatively less consistent across individual retailers. The remaining 35 supermarket product-categories were judged sufficiently consistent to allow comparable data from different retail chains while also providing a broad cross-section of category types and sales volumes. Given the 35 product-categories we identified to provide a representative sample of those in supermarket retailers, and the need to collect data from a sufficient number of retailers to establish generalizable results, we adopted a mail questionnaire data collection research design.

Where possible we adapted existing measures to our research context using insights from our fieldwork interviews. Where this was not possible, we combined insights from our fieldwork and the literature to develop new measures. We initially refined our measures by reviewing possible items with six grocery industry managers to enhance face validity. Measures were then further refined through a pretest in which 20 category managers/buyers completed the survey. The strong loadings and highly significant t-values for each of the items on the constructs they are intended to represent support the convergent validity of our measures. To assess the discriminant validity of our constructs, we examined the average variance extracted (AVE) of each construct and compared these AVE values with the shared variance for all possible pairs of constructs. The AVE values ranged from 62–76 percent, while the shared variances between the constructs ranged from 0–8.4 percent, indicating discriminant validity among our constructs. We assessed reliability by calculating the composite reliability of each scale. The composite reliabilities of our measures ranged from .83 to .93 suggesting that each scale has excellent reliability.

In line with retailer managers’ expectations revealed in our initial fieldwork, our results indicate that supplier influence on retailer category management is significantly related to focal supplier opportunism, but does not directly impact neither on non-focal suppliers militant behavior, nor on any of category outcomes. However, focal supplier influence has negative indirect effects on retailer’s category outcomes, namely, category’s market-
ing support and category’s financial support for the retailer. More specifically, our data reveals that when focal supplier influence is associated with opportunistic behavior on behalf of the focal supplier there will be undesirable consequences only on the quality of the marketing elements of the category. Further, when focal supplier’s opportunism activates non-focal suppliers’ militant behaviors the negative impact on retailer’s category level outcomes extends to the financial support for the retailer.

Interestingly, neither of the studied constructs (i.e., focal supplier influence, focal supplier opportunism and non-focal supplier militancy) had any impact whatsoever on category level outcomes for the focal supplier. Our findings appear to suggest that, in the short run at least, the focal supplier can exploit their role and demonstrate opportunistic behavior jeopardizing the stability of the relationships of the parties associated with the category and remain unaffected.

These findings are alerting for the retailers that having adopted category management, they tend to “trust” the focal supplier, leaving important category decisions to them. It is vital that retailers have in place properly designed monitoring mechanisms, enabling them to detect opportunistic behavior and develop contingency or even punitive plans in the event of the occurrence of such behavior.

From a network theory perspective, we appear to have revealed a “dark side” of the network of buyer-suppliers relationships in the specific grocery retail setting that needs further attention.

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MONITORING, SPATIAL MARKET CHARACTERISTICS, AND OWNERSHIP IN FRANCHISED SYSTEMS: EVIDENCE FROM U.S. RESTAURANT CHAINS

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SUMMARY

Franchised distribution systems integrate the corporate governance of the centralized activities of brand management and product development with the decentralized owner-management of spatially convenient locations by franchisees. While economies of separated ownership exist within these systems, a significant and changing proportion of outlets remains within franchised systems that are owned and operated by the franchisor (Lafontaine and Kaufmann 1994). The increased monitoring costs associated with the distance between outlets (Rubin 1978) and from corporate headquarters (Brickley and Dark 1987) have led to the general proposition that systems with more spatial separation between outlets will have a higher proportion of franchised outlets.

In contrast to this view is the evidence of widespread use of company-owned units found across states in the U.S., with the frequency of their appearance in any state suggesting little or no apparent effect of geography on their development. Separate to an explanation derived from distance and monitoring costs is the proposition that the revenue from a specific location determines if the franchisor will operate the outlet or sell the rights to that location to a franchisee, whereas outlets with higher potential will be company-owned or acquired at renewal of the agreement (Oxenfeldt and Kelly 1968). Similarly, conflict arising from territorial encroachment is a characteristic of systems using franchisee locations to achieve market penetration at the expense of lower sales per outlet (Kalnins 2004). In support of revenue based explanation, across states and across chains, the average revenue per company-owned unit significantly exceeds the average revenue per unit of the franchisee.

The purpose of the research is to assess the significance of physical distance between outlets on their ownership when controlling for the sales performance of outlets hip of retail franchised system by using within-market and between-market inter-store distances. Data from the Economic Census for states and from the leading chains provide separate sets of dependent measures of the proportion of company-owned outlets, permitting two separate cross-sectional analyses for full-service and limited service restaurant formats.

Estimates of market density, inter-store distances, and inter-market distances were collected using Internet directories and store locaters for 57 metropolitan markets, purposely selected to provide sufficient isolation from adjacent markets and fall completely within the state’s borders wherever possible. Aggregate measures for each chain, calculated from their locations found across markets, and for each state, calculated across chains operating within their states, were included with measures of sales per outlet in multiple regression models where the proportion of company-owned outlets was the dependent variable. Measures were available for analysis of 55 and 61 full and limited service restaurant chains, respectively, as well as the 51 observation for states from the Economic Census.

The results provide weak support for the perspective that inter-location distances determine the type of ownership found within states and within chains. The results show that the spatial measures affect store performance directly, as an increased market penetration of units is associated with lower outlet performance, particularly in full-service restaurants. While spatial measures are significantly correlated with the proportion of company-owned outlets, when competing with sales per outlet in a multiple regression specification, coefficients for the measures do not remain statistically significant.

The proportion of company-owned outlets found across states and across chains is significantly related to the measures of sales per outlet, with the correlations show it more closely linked to the performance of the franchisee outlet than the franchisor outlet. States and chains with an above average proportion of company-owned units have above average performance from their franchised units.
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TESTING WHY USERS ARE WILLING TO PAY MORE FOR PRODUCTS THEY DESIGN FOR THEMSELVES

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SUMMARY

Recent research shows that externalizing the design function to users leads not to a lower but to a far higher willingness to pay among customers. We conducted three experiments (n = 546) using actual toolkits to analyze why this is the case. Our findings reveal that beyond the increased preference fit involved, psychological factors also play an important role.

A “toolkit for user innovation and design” is a design interface which enables trial-and-error experimentation and gives simulated feedback on the outcome (von Hippel and Katz 2002). In this way, users are enabled to learn their preferences iteratively until the optimum individual product design is achieved. The manufacturer, in turn, produces the item to the customer’s specifications. Toolkits – also known as configurators co-design-platforms, or simply user design, exist in a variety of fields, ranging from computer chips (such as ASICS) to athletic shoes. Depending on the type of toolkit, the outcome can be an individually designed product (Park, Jun, and MacInnis 2000) or even an innovation (Thomke and von Hippel 2002). The rationale underlying the toolkit, however, is the same: It allows the customer to take an active part in product development.

In a recent study, Franke and Piller (2004) analyzed the value toolkits create for customers. They found that instead of demanding a price reduction for their time and effort, users are willing to pay a considerable price premium for being able to design their own products. Their willingness to pay (WTP) for a toolkit-designed watch exceeds the WTP for best-selling standard watches of the same technical quality by an average of 100 percent.

In this study, we analyze the reasons behind such value increments. In order to understand this, we derived hypotheses from theory and tested them in three experiments in which customers designed either their own cell phone covers, T-shirts or scarves using toolkits.

So far, the existing literature has emphasized the functional benefit toolkits might deliver, that is, the potentially close fit between user preferences and the self-designed product itself (i.e., the perceived preference fit, e.g., Randall, Terwiesch, and Ulrich 2005). In addition we hypothesize that (1) the process of designing a product via toolkit might impact the WTP increment (perceived positive/negative process benefit). Furthermore, we expect the perceived uniqueness of the self-designed product to positively correlate with the value increment. Finally, “Pride of authorship” refers to another output-oriented benefit. Toolkit designed products are not only unique products tailored to one’s needs – they are also self-designed products. Having done something oneself also appears to add extra value.

The study was designed as three experiments with subjects using one of three toolkits to design individual products. As the dependent variable, we use the WTP increment of self-designed products on the individual level. We define the “increment” (WTP) as the difference between WTP for a self-designed product and the customer’s choice from the list of ten standard products (WTP being measured by binding bids in course Vickrey Auctions, see Vickrey 1961). For the five independent latent variables we generated items following complex construct measurement (e.g., Anderson and Gerbing 1988/1992; Churchill 1979). Results of confirmatory factor analysis indicate a valid measurement.

Using Maximum Likelihood Estimation we found empirical support for all of our hypotheses. Nonetheless, we observe very different significance patterns in the three experiments. There are three main candidates for possible moderator variables: (1) the product categories, (2) the sub-samples, and (3) the toolkits. The project was started with the clear objective of selecting toolkits with varying characteristics and in product categories intended to be as similar as possible. Results of a pilot study indicate that this objective was reasonably achieved. Although they are not randomized, the samples for the three toolkits appear very similar and are thus unlikely to represent a major explanation. We conclude from this that the reasons for the differing patterns can be found primarily by analyzing the toolkit characteristics.

Possible effects of toolkit characteristics on perceived benefits with their impact on the value increment are discussed. Based on our findings we also discuss implications for companies planning to implement the “customer-as-innovator-approach.”

Of course, the fact that only three different cases are examined limits the value of any interpretation. Further
research on moderator variables would appear to be necessary. In order to delineate the effects of the product category and toolkit characteristics, our study could be repeated (1) using a multitude of existing toolkits in different product categories, or (2) using a flexible toolkit in just one product category with systematically varied characteristics. A full working paper including references is available upon request.

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ADOLESCENT INFLUENCE IN FAMILY PURCHASE DECISIONS:  
A RE-INQUIRY AND CROSS-NATIONAL EXTENSION 

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SUMMARY

This study is a reinquiry and extension of previous work reported in studies of adolescent influence in family purchase decisions. We first seek to reassess several of the findings previously reported in the literature (Beatty and Talpade 1994; Foxman et al. 1989a, 1989b; Belch et al. 1980; Foxman and Tansuhaj 1988) with a U.S. sample of adolescents (ages of 13–15). Second, we examine these previously reported relationships with a sample from China, and determine the effect of the gender of the adolescent in the context of a family purchase decision. Third, we compare adolescent influence across the two samples.

We first evaluate several important motivation factors – product importance, knowledge and anticipated usage on teens’ relative influence – across the three decision stages and across a range of product categories. All three variables have been shown to contribute to adolescent influence in the past (Beatty and Talpade 1994; Belch et al. 1985; Foxman and Tansuhaj 1988; Foxman et al. 1989a, 1989b; Mangleberg et al. 1999; Moschis and Moore 1979). Thus,

H1: Adolescents’ perceived relative influence in the decision-making process for a family purchase decision is positively related to (a) their perceived product knowledge, (b) the perceived importance of the product category, and (c) the anticipated level of product usage in both the U.S. and Chinese samples.

Our second hypothesis reexamines the long-standing finding that adolescent influence is highest at the initial phases and declines through the decision process. This finding has been consistently supported in the literature (Beatty and Talpade 1994; Belch et al. 1985; Belch et al. 2005; Foxman et al. 1989b; Moschis and Mitchell 1986). However, we believe this phenomenon may no longer hold since adolescents today possess more resources and power than in the past (Belch et al. 2005; Ellwood 1993; Powers 1994; Nock 1988). Thus, we propose that:

H2: Adolescents’ perceived relative influence in the decision-making process for a family purchase decision will be higher at the initiation stage than at the search stage. However, the decision stage influence will not be lower than the previous stages in both the U.S. and Chinese samples.

Our third hypothesis reexamines the common finding that teens attribute greater influence to themselves than their parents do across all phases of the family purchase decision. A number of studies support this finding (e.g., Beatty and Talpade 1994; Belch et al. 1985; Foxman and Tansuhaj 1988; Foxman et al. 1989b). Yet, due to the “group oriented” (Yau 1994) or “collectivistic” (Hofstede 1980) nature of the Chinese culture relative to that of the U.S., this finding may not hold for Chinese adolescents. Thus, we expect:

H3a: U.S. adolescents will attribute greater perceived relative influence to themselves than their parents will attribute to them in the decision-making process for a family purchase decision.

H3b: There will be a lack of perceptual difference between Chinese adolescents and their parents with regards to adolescent influence in the decision-making process for a family purchase decision.

In 1979, China adopted a one-child policy and the Chinese adolescent population of today is the result of this policy. Because of this regulation, Chinese parents’ love and money have been focused on a single child. As such, Chinese adolescents may have relatively higher influence in family purchase decisions than American adolescents. Therefore we propose:

H4: Adolescents’ perceived relative influence in the decision-making process for a family purchase decision will be higher in China than in the U.S.

Lastly, we expect that gender will play a substantial role in the case of Chinese adolescents. China remains a society with mixed feudal, socialist, and autocratic features (Cao 1987). Accordingly, boys are still preferred in many Chinese families. Thus, we posit that Chinese male adolescents will be more influential in the family purchase decision process than females, with no gender differences in the U.S. sample. We offer the following:
H5: (a) The level of perceived relative influence reported by male adolescents will be higher than by females in China; (b) there will not be an effect of adolescent gender in the U.S. for a family purchase decision.

The data collection processes for both the Chinese and American samples consisted of two separate questionnaires, one for the adolescent and the other for his/her parent. The Chinese sample was collected from four middle schools located in the northeastern region of China, while the American sample was collected from two schools (junior and high school) in the southeastern region of the United States. In terms of the scale measures, the reliability of the scales exceeded Nunnally and Bernstein’s (1994) standard of .70. Further, measurement equivalence (Steenkamp and Baumgartner 1998) was found to be valid across the two countries and achieved full scalar invariance, and thus the observed differences are reasonably comparable.

The data analysis supported H1 for U.S. adolescents. For the Chinese adolescents, H1 was supported for product importance across all stages and for anticipated usage at the initiation and decision stages, but not for product knowledge at any stage. The data provided support for H2, since adolescents’ perceived relative influence was higher at the initiation stage than at the search stage (consistent with past research), but then increased at the decision stage (inconsistent with past research) in both the U.S. and Chinese samples. H3 was not supported in the U.S. sample, given no perceptual differences between adolescents and their parents, but was supported in the Chinese sample, with few perceptual differences between parents and children. H4 was not supported – Chinese adolescents did not appear to have higher influence in family purchases than American adolescents. Finally, H5 was partially supported. As predicted in the U.S sample, males and females reported similar influence levels, while in the Chinese sample, where gender was expected to matter, there were no differences. A discussion of these results, the implications, and the references are provided in the full paper, which is available from the authors.

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THE EFFECT OF TASK AS A MODERATOR OF COGNITION AND AFFECT ON CONSUMER ATTITUDE IN ADOPTION OF HIGH TECHNOLOGY INNOVATIONS

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SUMMARY

There is a growing recognition that additional explanatory variables are needed to understand an individual’s technology acceptance. The technology acceptance model (TAM) has been used in explaining technology acceptance in workplaces. Scholarly research in Marketing has augmented TAM mainly to integrate affect (e.g., enjoyment and fun) to compensate on TAM’s shortcoming that focuses entirely on cognition (perceived usefulness and ease of use). Although some moderating effects have been studied (e.g., consumer traits, social anxiety, perceived waiting time), no extant literature has investigated the role of task that moderates the relationships of cognition (i.e., perceived usefulness and perceived ease of use) and affect on attitude in the adoption of high-tech consumption. Specifically, this study aims to answer two main research questions. First, will engagement in a utilitarian task induce cognition to have greater effect on attitude toward innovation adoption than engagement in a hedonic task? Second, will engagement in a hedonic task induce affect to have greater effect on attitude toward innovation adoption than engagement in a utilitarian task?

It is hypothesized that the relationship between the cognitive components and attitude will be stronger under a utilitarian task as compared to a hedonic task. On the contrary, it is hypothesized that the relationship between the hedonic components and attitude will be stronger under a hedonic task rather than under a utilitarian task. Based on the survey data, the hypotheses were empirically tested using structural equation modeling (SEM) technique. The results indicated that both cognition and affect are important to consumers and can directly influence attitude while at the same time be influenced indirectly directly or moderated by the nature of task consumers engage in. Given that most high technology products have short life cycles due to heavy competition and rapid technological advances, firms must better understand the consumer decision process, as well as what they really want from high technology products both direct and moderating effects. References available on request.

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WHAT DOES FAMILIARITY BREED? EXAMINING THE INFLUENCE OF BRAND USAGE ON BRAND KNOWLEDGE STRUCTURES

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SUMMARY

Although the notion that brand knowledge is organized into networks of brand associations is well accepted in the branding literature, the question of how brand knowledge structures may differ based on brand usage has not been considered empirically (Aaker 1991, 1996; Keller 1993, 1998). This is a problematic knowledge gap because brand usage is frequently employed by practitioners to segment consumers to develop and implement targeted marketing activities. For example, an assumption that light users and heavy users store similar types of information about the brand may lead to marketing communications or brand extension strategies that fail to effectively build on existing consumer knowledge. More specifically, should one assume that users (heavy, moderate and light) and non-users of a brand possess the same brand associations, but differ only in the strength and valence of these associations? Or, would it be better to assume that different usage groups differ in terms of the number and type of brand associations?

To address this research gap and the myriad issues that may arise from it, we conducted an exploratory study specifically examining how consumers’ brand knowledge structures may vary based on brand usage. To do this, we build upon prior research that examines the effect of brand familiarity, and specifically brand usage, on consumers’ associative networks.

The Influence of Brand Usage on Brand Association Network Contents and Structure

One definition of brand familiarity is the number of product-related experiences that have been accumulated by the consumer (Alba and Hutchinson 1987). Those product-related experiences include advertising exposures, information search, interactions with salespersons, choice and decision-making, purchasing, and product usage. Despite the multidimensionality of the brand familiarity construct, research in consumer psychology has shown that direct behavior or experience with a brand appears to have the greatest impact on a consumer’s associative network (Fazio and Zanna 1981). Alba and Hutchinson (1987) proposed that the cognitive structures used to differentiate products become “more refined, more complete, and more veridical” as familiarity with a brand increases. The authors suggest that the ability to elaborate on given information and to remember product information improves as familiarity increases. Therefore, we hypothesize:

H1: As brand usage increases, the total number of brand associations recalled from memory will increase (Supported).

Additionally, given that increased familiarity results in a more complicated, but more accurate brand structure (Weber and Crocker 1983), we may also expect the type of brand associations that are held in memory to vary based on the frequency of usage of the brand. Brand familiarity has been shown to provide consumers with a reduction in effort expended during decision-making (cf., Hoyer 1984; Einhorn and Hogarth 1981). Therefore, we hypothesize:

H2a: As brand usage increases, a greater proportion of brand-specific associations will be recalled from memory (Supported).
H2b: As brand usage decreases, a greater proportion of product category associations will be recalled from memory (Supported).

Additionally, Fazio and Zanna (1981) suggest that brand usage results in stronger associations than associations based on information or indirect forms of behavior. The associative strength increases both the likelihood that that information will be accessible and the ease with which it can be recalled. Therefore, we hypothesize:

H3a: As brand usage increases, the strength of brand-specific associations will be greater than the strength of product category associations (Supported).
H3b: As brand usage decreases, the strength of product associations will be greater than the strength of brand-specific associations (Supported).

Data Collection Procedure

First, subjects were asked to provide their consumption, familiarity and overall opinion of each of six brands, one of which was the focal brand, Ben & Jerry’s. Ben & Jerry’s was chosen as the focal brand because consumer familiarity for that brand derives almost entirely from
product experience, given that the brand has rarely run any media advertising. The primary collection task consisted of three steps based on the Hierarchical Categorization procedure for measuring brand meaning developed by Oakenfull et al. (2000). First, subjects were presented with a table of 30 well-known brands, representing a wide array of product categories and asked to select the four brands that had the most in common with the Ben & Jerry’s brand. Next, the subjects were asked to list the things or associations that each of the four brands they selected had in common with Ben & Jerry’s. Once they had completed this task, they were asked to rate the degree to which each brand was similar to Ben & Jerry’s using a 10-point scale with 1 = very little in common and 10 = very much in common.

Conclusions

The implications of our findings for branding practice are interesting. As marketers develop branding strategies targeting different usage groups, they will need to recognize that lighter users will be more likely to recall product-category type associations while heavier users of the brand will be more likely to recall higher-order brand-specific associations. This implies that branding activities designed to increase brand usage may need to focus more on emphasizing brand performance and brand judgment associations (i.e., points-of-difference, Keller et al. 2002) while those intended to reinforce brand loyalty (among heavier users) can focus on more on brand imagery and brand feeling associations. An interesting challenge implied by these findings is that successful transitioning of lighter users into heavier users may require branding messages that migrate from a performance/judgment focus to an imagery/feelings focus. Furthermore, efforts to leverage the brand from one category to another (i.e., brand extension) may need to consider which brand associations need to be emphasized in the leveraging process. Assuming that brand extensions are primarily targeted at heavier users of the brand in its current category, it would appear that the leveraging of higher-order brand imagery associations might be more valuable than necessarily leveraging lower-level product category based associations. Finally, marketers need to recognize that brand-specific associations held by heavier users are likely to be more strongly held and, therefore, harder to change if necessary to leverage the brand into a different category.

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THE IMPACT OF INTIMACY AND BRAND CONNECTION ON IDENTIFICATION AND CONSUMER SPENDING

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SUMMARY

Many firms are spending substantial resources to enhance customer perceptions of their brands. Brand mystique and prestige are two particular elements of branding that are receiving considerable attention and resources. Across a wide variety of durable and nondurable consumer products, firms are working hard to build or rebuild brands with high levels of mystique and prestige. These efforts may be based on the premise that prestige and mystique are the key aspects of brands that affect consumer identification with the brands, ultimately generating customer loyalty and spending.

Considering the importance of customer identification with brands, it seems relevant to assess the economic impact that the branding-identification relationship can have on customer spending. Given that marketers are becoming increasingly accountable for clearly showing how branding efforts impact the financial statements, it remains imperative for managers to get a solid return on their branding investments. As such, managers need guidelines that help them allocate resources to the most effective branding efforts that enhance customer identification and consumer spending. Blending elements of social identity theory with the literature on branding, customer identification, and customer loyalty, we empirically evaluate a model showing how brand mystique and prestige affect customer identification and consumer spending. We also examine how two aspects of brand relationship strength (intimacy and brand connection) moderate these relationships.

We conducted a field study with affinity group members attending a national motorcycle exposition event sponsored by a leading motorcycle manufacturer. We set up tables at various locations around the exposition and invited attendees to complete a survey about the sponsoring firm in exchange for a commemorative event lapel pin. Over a three-day period, we asked 1,705 attendees to participate and collected 1,193 completed responses, yielding a 70 percent response rate. On average, respondents had owned the particular motorcycle brand for 15 years. Forty-five percent of the sample were male while the average age was 48 (s.d. = 16.03). Further, approximately 50 percent of respondents reported incomes in the $60,000–$90,000 range. The respondents spent an average of $312 during the prior year on brand merchandise and accessories (excluding purchase of the motorcycle). We matched customer perceptions regarding the relevant constructs with the respondents’ spending data from the firm’s database. We also employed data checks to assess respondent bias. First, our sample characteristics were not significantly different from the general customer profile reported by the focal firm, offering some evidence that our sample is representative of the focal firm’s customer base. Second, we surveyed 243 consumers at motorcycle dealerships of two key competitors. Our analysis revealed no significant differences in age, gender, or identification between our study respondents and this sample, offering some evidence that our respondents are representative of motorcycle consumers.

Results indicate that an individual’s identification with a brand is influenced both by the prestige associated with the brand as well as the brand’s mystique. Further, these relationships are moderated by the individual’s relationship with the brand. A deeper level of intimacy with a brand seems to be essential for an individual to identify with a low-prestige, low-mystique brand. Consumers may rely mainly on peripheral cues for evaluating brands when they are not psychologically close to the brands (i.e., low intimacy). It may be imperative to utilize techniques that are focused on building potential consumers’ level of intimacy with the brand. One way to accomplish this would entail using public relation techniques geared toward creating and/or enhancing the audience’s knowledge about the positive consequences of brand ownership.

Our results also indicate that both prestige and mystique are stronger predictors of brand identification when brand connection is relatively low. Consistent with the notions that firms need to strive hard to connect with consumers, managers might consider sponsoring brandfests (e.g., Jeep Jambores), brand-centric travel events, plant tours, and/or demonstration workshops to help magnify brand connection and minimize the ongoing need for building or maintaining the brand’s prestige and mystique. Perhaps managers could shift promotional budgets away from traditional one-way media and instead focus more on interactional promotions and grassroots efforts that connect with consumers where they live, work, and play.
Our study finds a strong positive relationship between brand identification and consumer spending. Resources spent on enhancing consumer perceptions of a brand’s mystique and prestige, as well as working to enhance the connection and intimacy with the brand, can trigger higher brand identification and set the stage for increased consumer spending. Our study highlights where the “rubber meets the road” in branding by setting forth key branding initiatives that translate to higher consumer spending. Amid the ever increasing accountability for each dollar spent on branding initiatives, brand managers can use our findings to partly justify enhanced support for branding projects focused on generating higher levels of brand connection and intimacy. Our results show that mystique and prestige have weaker influences on brand identification when consumers perceive higher levels of brand connection and intimacy. Managers can likely benefit from allocating proportionately more resources toward increasing brand connection and intimacy, thereby overcoming the complex and ongoing task of building and maintaining prestige and mystique in competitive markets. References available upon request.

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EMPIRICAL APPROACHES TO STUDYING BRANDING DYNAMICS

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ABSTRACT

Dynamics research may yield important insights in branding. Dynamic complex systems theory, suggested for marketing use by Holbrook (2003) and others, can offer a unique theoretical lens. Such research may be more accessible than is commonly assumed, as demonstrated by two empirical methods, “state space grids” and continuous self-report measures.

INTRODUCTION

Many pressing questions facing brand managers and researchers have important dynamic dimensions. However, trajectories of change in brand attitudes, preferences, purchase decisions, loyalty, and strategy have yet to be thoroughly studied. After highlighting the dynamic nature of brand-related questions being asked in and out of the academy, this paper considers the potential leverage available by adopting a dynamic systems viewpoint. A brief introduction to systems theory is provided, emphasizing the possibility of research which applies small subsets of this theory with traditional statistics rather than systems mathematics. Finally, two practical methods for pursuing dynamic brand research are discussed, “state space grids” for investigating patterns of change and stability within a brand system, and continuous self-report measures for studying fluctuations in opinions, attitudes, and preferences.

DYNAMIC DIMENSIONS OF BRANDING

Questions of fluctuation and stability are implicit in the branding literature. For example, brand loyalty is known to vary, yet the processes driving that fluctuation are unclear (Fournier 1998). Variations in usage situations (i.e., day of week, etc.), usage or purchase locations, and formality of activity may be pivotal in understanding the relationships that consumers form with brands. Consumer brand behavior may be tied to fluctuations in preferences and attitudes related to characteristics, attributes, spokespeople/characters, associations, and perceived quality.

Aggregate variations in loyalty are linked with the financial value of brands. The ability to measure and analyze fluctuations in perceptions and associations may provide keys to quantifying brand management practices in monetary terms. If loyalty is shown to be cyclic, for example, the timing of brand communications may be pivotal in determining impact. If the pattern of brand loyalty development over time is known, the relative costs of alternative brand strategies may be more effectively compared.

The stabilization of dynamic phenomena is an important objective of a number of managerial branding decisions. The very process of brand creation can be viewed as the deliberate cultivation of a stable state in a dynamic environment where none previously existed. There may be stabilization points corresponding to the extension capacity of a brand line, or the overall capacity of a brand category. A way to measure and compare the likelihood and strength of such states, as well as the changes in them through time, would be beneficial.

Thus the ability to identify patterns of change, and to quantify their influence and duration, may be valuable in addressing a number of branding questions. Systems theory can provide tools for understanding dynamic processes in branding. Because such research analyzes data at a systemic level, this approach may also anticipate previously unrecognized opportunities which may be available for development. The next section contrasts a dynamic systems viewpoint with more traditional approaches to social science research.

DYNAMIC SYSTEMS THEORY

Developed in physics and mathematics, systems theory has been applied throughout the natural sciences and in a range of social sciences, including economics, psychology, sociology, and political science. As a broad theoretical framework, it encompasses sub-theories, such as chaos and catastrophe theories, and is called by a variety of names. Morris Holbrook (2003) uses the name “dynamic open complex adaptive systems theory,” acknowledging that each of these terms can define a system in specific ways. For the purposes of this paper, the term of interest is “dynamic,” which conveys the primacy of motion through time inherent in this theoretical lens.

Systems theory has influenced thousands of managers metaphorically through popular press works such as Geoffrey Moore’s Crossing the Chasm and Peter Senge’s Fifth Discipline. Under the rubric of “complexity,” it appears extensively in the management strategy literature, though these are generally not empirical papers.
Systems theory has also been used to study market networks, often using computer simulations (for a review, see Wilkinson and Young 2002).

In the marketing literature, conceptual pieces encouraging systems-based research appeared in 1978 (Oliva and Burns), 1981 (Reidenbach and Oliva), 1990 (Wilkinson), 1994 (Hibbert and Wilkinson), and 2003 (Oldridge). Wollin and Perry (2004) offer a concise framework for application of systems theory in marketing management, and illustrate it with a case study of Honda in the global auto market. In 2003, the *Academy of Marketing Science Review* published Morris Holbrook’s 181-page review of systems theory, “an effort both to condense, clarify, and encapsulate its high points and to indicate its relevance to business and marketing practice” (Holbrook 2003, executive summary). While each of these papers argues for greater use of systems theory in marketing, none contrasts it to existing research approaches, or points to the most accessible avenues for empirical work; this paper aims to fill those gaps.

To date there have been few truly empirical marketing studies using systems theory. Exceptions include the work of Terence Oliva, who has addressed product adoption (1991; Lange, McDade, and Oliva 2004), service satisfaction (1992), and the link between satisfaction and involvement (1985). These studies follow the mathematically-intensive approach used in economics. In this tradition, discontinuities in systems are modeled with nonlinear equations, corresponding to one or more of the seven elementary topological forms of the classification theorem of mathematics. With whimsical names based on geometry, such as swallowtail and butterfly, these models can be complex indeed, involving up to six dimensions.

Thus it appears that the current scarcity of empirical systems work in marketing is due in part to the complexity of systems mathematics. However, it is possible to apply these forms without using their equations. Latané and Nowak (1994), for example, tested systems-based hypotheses with simple descriptive statistics. In fact, a wide range of empirical research can be informed by systems theory and analyzed with traditional statistics. However, it requires what for some may be a grand conceptual leap, to a viewpoint in which dynamic change is the outcome of interest.

**FROM COMPARATIVE STATICS TO DYNAMICS**

“Statics” and “dynamics” are subsets of “mechanics,” the branch of physics in which the action of forces on matter are analyzed. *Statics* refers to equilibrium mechanics, while *dynamics* refers to the mechanics of motion. *Comparative statics* is the primary analytic viewpoint used in economics, and in marketing. It is “a method of analysis in which we start from an equilibrium situation and assume that a disturbance occurs which leads to a new equilibrium, which is then compared with the initial situation. . . .Comparative statics has little to say about the path or speed of movement from equilibrium to equilibrium” (Livesay 1993). In contrast, *dynamics* is the “analysis of the process of change, often in terms of the path of the movement from one equilibrium position to another” (ibid).

A comparative statics viewpoint assumes that measurements cleanly collected describe enduring phenomena, that the only real changes in them occur in smooth, continuous curves, and that data appearing otherwise are contaminated by noise. Weeding out extraneous variables in order to reveal the true underlying phenomena is seen as a matter of practical necessity. However, important information about fluctuations and change processes may be discarded as a result, information which is critical in analyzing phenomena dynamically. The following assumptions are contrasted with the corresponding information lost (adapted from van Geert 1997).

Thus shifting to a dynamic systems perspective enables researchers to ask different questions. Most marketing research has tended to investigate comparative statics questions. Although some models include change processes, they are typically analyzed by comparing states of equilibria rather than by studying the motion between them. For example, the elaboration-likelihood model compares central and peripheral processing of messages based on different initial states, but it is the change of state that is of interest rather than the specifics of the change pathways. Most longitudinal and time-series research can be viewed as a kind of hybrid between comparative statics and dynamics. Although fluctuations and change are investigated, the outcome of interest is often static or categorical, and the analysis is usually done without applying knowledge of the principles of dynamics that are ubiquitous in nature.

To fully embrace dynamic change, a shift in viewpoint is needed. Traditionally, researchers measure a pre-treatment level, apply a treatment, and then measure a post-treatment level. In contrast, dynamic systems models are iterative, using the output of each operation as input for the next operation. The outcome of interest is not a measurement of a variable at a static point in time, but a *trajectory* depicting the entire system as it changes over time. The objective is an understanding of potential motion on a landscape of feasible system states, inclusive of environmental impacts.
As a hypothetical example, suppose that brand loyalty among a key segment for a given product is known to oscillate between states of loyalty and brand indifference, where the unit of time is a purchase. Suppose that these oscillations fade toward brand indifference in some customers, rise toward steady loyalty in others, and continue to oscillate among a third group, as purchases accumulate. Suppose that the “faders” are shown to convert to “perpetual oscillators” when they receive targeted communications on their “indifference” purchase occasions. Suppose further that those stabilizing toward loyalty are found to be developing brand-based social networks, and that the number and strength of such friendships correspond to finer fluctuations in their loyalty trajectories. Finally, suppose that the frequency of indifference swings among “perpetual oscillators” can be reduced or eliminated by assisting them to build brand-based relationships.

Such a scenario, if confirmed by research, would be of interest to both managers and academics. The scenario itself, the trajectories of potential motion within the system, would be a valuable finding. Thus the outcome of dynamic systems research is a trajectory, rather than a set of measures. This is a reasonable and important research result. Consider this in mathematical terms. Given a function $F$ such that $\frac{dx}{dt} = F(x)$, the usual outcome of interest is $x$, or a set of values of $x$. In dynamic systems work, however, the objective is to identify $F$, the iterative relation between $x$ and itself over time. Knowing $F$ implicitly accounts for unimaginable environmental variables. $F$ need not be complicated to generate a complicated pattern over time. Furthermore, in natural systems, such functions are frequently coupled with other functions, and the ability to specify coupled trajectories would comprise scenarios involving competing brands, and loyalty/purchase decisions involving more than one person.
Thus dynamic systems research takes a step beyond other time-based approaches, such as time-series and Markov chain models. Such approaches fall on a continuum between comparative statics and dynamic systems research. Toward one end of this spectrum, time series data is used to answer questions about equilibria, and toward the other end studies are conducted which may be asking dynamic questions and which may be identical in methodology to systems-based studies but which are not yet interpreted using the most relevant analytic lenses available.

**SOME DYNAMIC SYSTEMS TERMINOLOGY**

Change in a dynamic system can be gradual or sudden, involving superficial or structural shifts. A new brand may be introduced to the market, changing consumers’ consideration sets and brand preferences, or an existing brand may take on a more “outdoorsy” image. Initially adjacent points can end up in wildly different places within a system. Trajectories can be shown as flow lines on a diagram showing all possible locations and motion within a system. Dependent and independent variables define the axes of such a diagram. A trajectory can be drawn toward a point, called an *attractor*. Similarly, a trajectory can be repulsed from a point, a *repeller*.

Figure 1 is a representation of a simple dynamic system illustrating these concepts. This system has two attractors, each at the terminus of a spiraling trajectory. A point starting anywhere in the shaded (unshaded) region will ultimately be drawn into the shaded (unshaded) attractor. The shaded (unshaded) region is called the *basin of attraction* corresponding to the shaded (unshaded) attractor. In many systems, attractors are cycles, circled by *periodic* trajectories. Trajectories can also be quasi-periodic, chaotic, random, or coupled with one or more other trajectories during part or all of their paths.

A classic example of a periodic trajectory is a pendulum. A swinging pendulum will alternate between two poles (appearing as a wave when plotted as a time series, and as a circle/oval when the axes are displacement and velocity). A swinging pendulum will gradually come to a stop unless energy is injected to keep it moving. The slowing effect of friction and air resistance is called *damping*. The carrying capacity of an ecosystem is another friction-like damping force, limiting the alternating abundance of predators and prey in a model from biology that has been used to study market growth. Biologists may counter damping by injecting resources into a system. The pushing of a child on a swing (pendulum) is another example of injected energy. When these injections of energy stop, the oscillations will gradually come to a stop as well.

While space limitations prohibit a fuller introduction to dynamic systems theory, it is important to recognize that small subsets of the theory can be adequate and powerful in informing empirical research.1 The final sec-

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**FIGURE 1**

tions of the paper propose two empirical methodologies, “state space grids” and continuous self-report measures.

STATE SPACE GRIDS

Lewis, Lamey, and Douglas (1999) (hereafter termed LLD) created “state space grids” to investigate the emotional behavior of infants towards their mothers. Gaze angle and reunion distress were coded from videotaped interactions. Study objectives were (a) to identify the states of stability, or attractors, in the system, (b) to test these attractors for predictable recurrence under similar conditions, (c) to investigate time-based variations in attractor location and consistency, and (d) to examine individual differences in attractors over time.

LLD plotted behavioral variables through time as x-y coordinates on a matrix defined by the ordinal variable scales. Behavior duration was indicated by the size of the circle representing each coordinate pair. Sequential points were connected by time line arrows showing change in the system. The result for each pair of subjects looked something like the “state space grid” shown in Figure 2. A statistical “winnowing” process was developed to formally identify attractors. The influence (or basin of attraction) of an attractor was calculated as the probability that the system would move to the attractor cell in the next step in time. The stability of the attractor was operationalized as the time it took for the system to return to a given cell having been there previously. A number of statistically significant relationships between attractors were identified, and their patterns over time were analyzed constructively.

While these particular findings may have little relevance to brand research, understanding analogous brand behavior among consumers would have significant value. How likely are consumers to return to a given brand attractor? What patterns emerge over time among brand attractors? Do influence and stability of brand attractors account for consistency in brand behavior? At what point would introduction of a new brand vs. a brand extension increase overall attractor influence and stability?

One might visualize a promising brand strategy as a set of magnets placed on a game board under which electrical currents run in changing patterns. In this metaphor, a map of the locations and strengths of underlying

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**FIGURE 2**

A Hypothetical State Space Grid Using GridWare Software
Retrieved from http://statespacegrids.org
charges, and the patterns within which they can and cannot change, would be of enormous benefit to managers. Concurrent branding strategies could be compared as attractor trajectories. Private labeling and channel branding alignment, both filled with rich dynamic complexity, could be modeled usefully. Brand switching due to price promotions can be envisioned as a grid of price-tiers plotted against quality, loyalty, or other variables.

Other applications might include cult brand or brand community relationships. McAlester, Schouten, and Koenig (2002) found that inter-customer relationships and customer experiences drive brand community. These could be plotted as state space coordinates using LLD’s software. Susan Fournier (1998) proposes that customer-brand relationships echo fifteen forms of interpersonal relationships, and cites “evolution and change over time” as one of four qualifying conditions for interpersonal relationships. State space grids offer a method for investigating such evolution and change. Reunion distress and gaze angle aversion, the independent variables used by LLD, might even have parallels in customer-brand relationships. For example, the sentiments of loyal Coke customers after their overwhelming rejection of New Coke and the subsequent reintroduction of Classic Coke could be seen as “reunion distress.” Gaze angle aversion might correspond to brand avoidance following a negative public relations event.

State space grids could be useful for studying variables known to be path dependent. These would include differing responses under high-involvement versus low-involvement conditions, such as central and peripheral processing, the influence of famous endorsers on message elaboration, and the effects of mood/affect on persuasiveness of loss- versus gain-framed messages. Thus the state space grid method has multiple and diverse applications within branding research.

CONTINUOUS SELF-REPORT MEASURES

Because continuous self-report measures produce trajectories representing change over time, they can be readily used to investigate dynamic systems questions. They have been applied in marketing research by Scammon (1977), Thorson and Friestad (1989), and others. In general these studies have investigated statics questions, with no intention of researching dynamics per se. However, two of nine hypotheses tested by Aaker, Stayman, and Hagerty (1986) addressed dynamics questions using a measure called the “warmth monitor.” Subjects were asked to move a pencil continuously down a paper while viewing television commercials. Lateral movements reflected subjects’ feelings of “warmth” on a scale ranging from “absence of warmth” to “moist eyes.” Results suggest that warmth can be created or changed during a commercial, and that it can be changed by varying the sequence and type of commercials viewed.

While the “warmth monitor” was used in these studies to gather continuous data and test dynamic hypotheses, the above work does not tap the full potential of dynamic systems research. The outcomes were analyzed as state comparisons of a binary nature; the authors followed a pre-test, treatment, post-test model. The dynamic data were aggregated to five measures per commercial rather than being analyzed as a continuous path of motion. Thus this work only hints at the potential of continuous self-report measures in investigating dynamic phenomena.

Later work by psychologists Vallacher, Nowak, and Kaufman (1994) used a continuous self-report measure to assess fluctuations in social judgments (or attitudes) and test hypotheses explicitly informed by dynamic systems theory. They found that univalent and mixed-valence representations generate different temporal trajectories of evaluation and display different behavior with regard to an equilibrium state. Additionally, they demonstrated that temporal trajectories of evaluation can be used to infer the structure of the underlying judgment system. In this study, subjects were asked to move a computer mouse cursor toward or away from a circle in the center of a monitor as their feelings about a target person changed during a two-minute period. Subjects were assigned to groups based on pre-existing positive, negative, or ambivalent valences of target persons. No intervention was provided; subjects were merely asked to think about their target person during the two minutes, and move the mouse accordingly.

Subjects in all three groups revealed significant oscillations, as seen in the examples in Figure 3. Subjects who were expected to have negative or positive judgments about their targets oscillated between negative and positive judgments (moving the mouse pointer alternately toward and away from the center) before stabilizing at the expected negative or positive valence. Thus the expected polarization in evaluation and decrease in variation over the two-minute period for univalent but not mixed-valence targets were observed. Greater speed and acceleration and less time at rest were observed when subjects’ attitudes were closer to positive targets, and the opposite was found for negative targets. An expected decrease in dimensionality occurred for univalent but not mixed-valence targets. Interaction effects were significant for distance/behavior and time, and target, behavior, and acceleration.

In this research, the stable states of positive and negative judgment were identified as attractors. Subjects with pre-existing positive (negative) judgments began in the positive (negative) attractor’s basin of attraction, and ended up in that attractor, even though the trajectory of
FIGURE 3
Distance from Target (Vertical Axis) by Time (Horizontal Axis) for Subjects Judging (a) Positive Target, (b) Negative Target, and (c) Mixed-Valence Target. The Vertical Axis Ranges from 24–74 Pixels in (a) and 0 to 400 Pixels in (b) and (c). From Vallacher, Nowak, and Kaufman (1994).
their thoughts circled around the negative (positive) attractor a number of times first. However, subjects with pre-existing ambivalent valences showed oscillations, or periodicity, throughout the study period. Rather than resting at a neutral distance, ambivalent subjects alternated continuously between positive and negative valences in a periodic attractor. In a diagram like the one in Figure 1, this would appear as a closed trajectory endlessly looping around the two attractors. Thus, for ambivalent subjects, no friction-like force is damping the oscillations.

The marketing relevance of this study includes implications of the findings as well as applications of the methodology. If preference judgments or purchase intentions are highly dynamic phenomena, marketing communications designed to influence consumers might be managed more effectively. For example, if purchases are preceded by a pattern of alternating assessments by consumers before they make a final purchase decision, communications may be timed to coincide with the oscillations perhaps preventing stabilization at brand indifference. Like pushing a child’s swing, such a phase-dependent injection of energy could be planned based on research that identifies the source and nature of the damping force that leads to stabilization.

As another example, subjects with pre-existing brand loyalty, aversion, and ambivalence might be asked to move a mouse as their feelings about a brand vary in a design similar to that used by Vallacher, Nowak, and Kaufman. Subgroups of subjects could be asked to think about brand-based friendships (a fellow brand owner), associations with the brand or the company (such as a particular spokesperson), brand characteristics (such as animated characters), or attributes (such as quality). Associations could be compared by level of abstraction. Targeted communications could be tested for effectiveness as injections of energy to counter specific forms of damping.

If the impact of different communication patterns or content on brand evaluations is understood, the costs required to achieve measurable effects on loyalty fluctuations could be calculated. Such measurements would be valuable in assessing brand strategy expenditures, or comparing impacts of concurrent strategies. Fluctuations in purchase intentions and consumer assessment of new products or brand extensions might also be studied. These speculations do not begin to exhaust the potential of continuous self-report measures in dynamic systems based branding research.

CONCLUSION

Trajectory research may increase understanding of issues of concern to brand managers and researchers. The two empirical methods presented in this paper may yield insights into the timing of branding strategies, variables influencing brand attitudes and loyalty, consumer brand decision processes, measurement of brand strategy and communication impacts, brand switching behavior, brand communities, and brand extension decisions, among other topics.

State space grids and continuous self-report measures appear likely to yield “low-hanging fruit.” These are two among a handful of emerging research methods using conventional statistics to apply dynamic systems theory concepts without requiring systems mathematics. In essence, they allow accessible empirical work informed by a substantial body of scientific knowledge which is underutilized in marketing, and are thus untapped resources for brand research.

According to Morris Holbrook (2003, p. 3), “Overall, the verdict . . . is that complexity science has not yet commanded anything like the degree of attention it deserves in mainstream marketing research.” Let the research begin in branding.

ENDNOTES

1 For further reading, see Holbrook (2003), Abraham and Shaw (1992), or the eminently readable Stewart (1989).

2 The authors are grateful to an anonymous reviewer for bringing this work to our attention.

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ANTECEDENTS AND OUTCOMES OF SATISFACTION, QUALITY, AND VALUE

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SUMMARY

Satisfaction, quality, and value have received increased attention and development in the literature over the past decade (Nijssen, Singh, Sirdeshmukh, and Holzmüller 2003; Cronin, Brady, and Hult 2000; McDougall and Levesque 2000; Rust and Oliver 2000). There has emerged in the literature a call to link marketing activities to firm performance outcomes, including such measures as sales, market share, return on investment, and firm value (Moorman and Rust 1999; Phillips, Chang, and Buzzell 1983; Zeithaml 2000). In this paper the research on satisfaction, quality, and value is reviewed and synthesized and linked to firm performance outcomes. A model that describes this process is developed that combines these elements in an overall interrelated framework.

Much of the research in the areas of satisfaction, quality, and value has viewed each of these constructs independently rather than collectively in terms of their interrelationships and outcomes (Lien-Ti and Yu-Ching 2001). However, some recent efforts have been made to examine the collective effects of quality, value, and satisfaction on consumer behavioral intentions (Cronin, Brady, Hult 2000). Researchers suggest an examination of these factors in combination to increase the understanding of these variables (McDougall and Levesque 2000; Parasuraman 1997).

There are three types of models that are used to model the management of services, these are customer behavior models that explain how customers react to service, service quality impact models that address the business consequences of service quality, and normative service models that prescribe how organizations should organize and manage their service (Rust and Metters 1996). In the model developed in this paper phase one represents customer behavior that ends with behavioral intention outcomes. Phase two of the framework illustrates behavioral intention impacts that end with direct measures of firm performance. Implicitly, the model also contains a normative element in that the structure of the model leads to how organizations should manage this process.

The model begins with standards that the consumer uses as a frame of reference to evaluate purchase outcomes. A consumer compares actual performance with expectations on relevant attributes. Consistent with Fishbein and Ajzen’s (1975) model of attitude formation, satisfaction and quality judgments are formed on the basis of the disconfirmation levels on the various attributes and the importance or evaluative implications of the attributes (Ofir and Simonson 2001). Value is a consequence of the consumer’s comparison of the outcome with the sacrifice made (Cronin et al. 2000). This results in an assessment of value that is at the same point in the model as satisfaction and quality and also has an impact on behavioral intentions. In some cases, outcomes directly impact satisfaction, quality, and value without the test of convergence being necessary. Due to the assimilation effect, standards may impact satisfaction, quality, and value directly without an outcome/convergence process being necessary. Due to an expectation effect, standards may impact quality directly and bypass the convergence process. Similarly, expectations can have a reverse impact on the influence of standards. Consumers may adapt expectations following observations of quality in product purchase scenarios (Kopalle and Lehmann 1995).

The cumulative level of satisfaction, quality, and value are based on the previous level of these factors as modified by the customer’s latest experience. The overall process of satisfaction modeled in this paper is recursive. Outcomes of satisfaction, quality, and value that form the basis for behavioral intentions also become inputs for desires and expectation levels in future purchase encounters by that consumer (John 1992). Satisfaction, quality, and value combine to form an overall customer loyalty that includes economic and social behavioral intentions. The cumulative levels of satisfaction, quality, and value influence the consumer’s loyalty to the product or service (Cronin et al. 2000; Mattila 2000; McDougall and Levesque 2000). Increased perceived satisfaction, quality, and value lead to higher levels of customer loyalty, which in turn, impacts economic and social behavioral intentions. The economic and social behavioral intentions create marketing outcomes that ultimately contribute to performance and firm value.

There are numerous issues that remain to be answered in measuring the impact of satisfaction, quality, and value on firm performance. Satisfaction and profitability have been examined (Anderson et al. 1994), quality and profitability have been examined (Zeithaml 2000), but there has not been an attempt to measure the impact of satisfaction, quality, and value collectively on firm prof-
The linkages from initial standards as seen by the consumer to the value of the firm. Not only does this address the need for this research in the academic literature, but the use of the framework may also enable managers to better administer these processes. References available upon request.

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IMPACT OF SATISFACTION, RELATIONSHIP LENGTH, AND SWITCHING COSTS ON CUSTOMER BEHAVIORAL INTENTIONS: EXAMINING LINEAR, QUADRATIC AND INTERACTION EFFECTS

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SUMMARY

Since customer loyalty management is a strategic imperative for most firms, recent interest in this topic has been considerable. In keeping with predominant views in literature (cf., Oliver 1999), the current study defines loyal customers as “long-term customers with a positive attitudinal disposition towards their service provider.”

The premise underlying the concept of loyalty management is that long-term customers are loyal customers, and that they are profitable to the company they patronize because they use the service more; are less price sensitive; bring extra business through referrals; and because acquiring new customers is costly (Reichheld and Sasser 1990). However, subsequent literature challenges this premise. Dowling and Uncles (1997) argued that the contention that long-term customers are always more profitable is a gross oversimplification. Anderson and Mittal (2000) argued that while the satisfaction-profit chain (which is fundamental to the loyalty – profitability association) is conceptually solid, the relationships could be asymmetric and non-linear. Reinhartz and Kumar (2000, 2003) demonstrated the presence of high and low profitability customers among both short and long-term customers. However, these latter studies focused predominantly on the purchase/repurchase dimension of customer behavior to draw these conclusions, whereas, sources of profitability can be numerous. For instance, Reichheld (2003) found that word of mouth is the most crucial index to monitor in achieving profitability. Therefore, in order to study the true impact of loyal customers, it is necessary to look at multiple dimensions of customer behavior. The current study does so by studying additional dimensions of potential determinants of profitability, namely, positive word of mouth (PWOM), negative word of mouth (NWOM), and level of price sensitivity (PS).

Furthermore, the presence of switching costs in many industries, which forces customers to remain with a service provider means that at least some long-term customers may lack a positive attitudinal disposition, and thus, may in fact not be loyal. Therefore, it is also an imperative that empirical research on long-term customer behavior accounts for the presence of switching costs, as well as the customers’ attitudinal disposition towards the service provider. This is lacking in extant research, and the current study aims to address this as well. Therefore, the overall aim of this research is to investigate the impact of relationship duration on multiple behavioural outcomes that are known to impact profitability, while accounting for both the customers’ attitudinal disposition towards the service provider, as well as the presence of switching costs.

A large-scale survey of fixed line telephone customers in a competitive environment was undertaken to test the relevant hypotheses. The contractual setting studied ensured the presence of switching costs. The items used in the survey were based on previously validated scales and were found to have adequate measurement scale properties. The results confirmed some existing premises, but challenged numerous others.

Discussion

Effects of Satisfaction: As expected, high satisfaction was associated with high PWOM, low NWOM, and low PS. However, the impact of satisfaction on these outcomes though monotonic, was non-linear, with a quadratic function explaining impact of satisfaction on all outcomes. This is consistent with the idea that in the satisfaction-loyalty link of the profit chain, for different levels of satisfaction, there can be increasing or diminishing returns (Anderson and Mittal 2000). While it is recognized that the specific patterns can be contextual, the overall quadratic effects observed on all three outcomes extends previous focus in research on the repurchase dimension.

Effects of Switching Costs: While the main effect of switching costs on PWOM was not significant, there were significant negative effects on both PS and NWOM. Moreover, switching costs, in combination with satisfaction, had a significant reinforcing effect on NWOM, indicating that for a given level of satisfaction, presence of switching costs increases the propensity for NWOM. While recent business literature espouses the merits of switching costs (Bueschken 2005), it is clear that benefits can be mixed, and that they can in fact reinforce negative behavior. These results are similar to trends found in the
commitment literature. Fullerton (2003), for instance found that continuance commitment, which has conceptual overlaps with switching costs (O’Reilly and Chatman 1986), had a negative effect on consumer advocacy intentions.

Effects of Duration: The main effects of duration (relationship length) were found to be significant on both PWOM and NWOM, but not on PS. Both new and long-term satisfied customers were found to display a level of price sensitivity that was statistically not dissimilar. Furthermore, duration, in combination with satisfaction, had an attenuating effect on both NWOM and PWOM, but once again, there was no combined (moderating) effect on PS. These results challenge some fundamental beliefs about long-term customer behavior. While the attenuating effect on NWOM was expected, the effects on PWOM and PS were not. For a given level of satisfaction, new customers were found to give greater PWOM. Moreover, there was no difference in the level of PS, even accounting for the level of satisfaction. These significant moderating effects can be explained by the organisational theory of the liability of adolescence, which holds that the initial “honeymoon” period of a relationship reduces unfavourable outcomes as a result of the initial stock of resources already committed to the relationship (Fichman and Levinthal 1991). This explains the customers’ propensity at a given level of satisfaction to enhance the propensity for PWOM and reduce the propensity for NWOM during initial periods. If for a given level of satisfaction new customers are more likely to give PWOM, less likely to give NWOM, and likely to be no different in terms of level of PS, then, this is further evidence that new customers could potentially be more, or equally profitable as long-term customers.

Overall, results illustrate that the effects on the three outcomes studied are different. Since each outcome has an impact on profitability, the findings illustrate the need to treat each outcome distinctly. From a managerial perspective, the premise that long-term customers with a positive attitudinal disposition are more profitable appears to be too much of a generalization. Thus, the findings add an important cautionary note to firms who formulate their marketing strategies with the fundamental aim of establishing and maintaining long-term customer relationships. References available upon request.
QUALITY OF ELECTRONIC SERVICES: CONCEPTUALIZING AND TESTING A HIERARCHICAL MODEL

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Ibrahim Koese, WHU – Otto Beisheim Graduate School of Management, Germany

SUMMARY

Electronic services have received considerable attention in academic research recently, with conceptualization and measurement of quality being among the major issues on the research agenda (Bitner 2001; Grove, Fisk, and John 2003). The self-service character of electronic services and the Internet as a new service environment strongly suggest that a simple carry-over of traditional measures is likely to fall short of thoroughly capturing the quality of electronic services (QES). Clearly, specific research is needed. However, precise conceptual definitions as well as solid theoretical work have been scarce so far and generalizability of empirical results rather low, which suggests that we are still in the early stages within this field of research. From a managerial viewpoint, comprehensive measurement is the key to effective management of QES. Delivery of high service quality, in turn, is a primary source of competitive advantage, as transparency of prices is relatively high on the Internet and competitors often are just one click away.

In the present study, we develop and test a conceptualization of QES that is applicable to a broad range of electronic services. On the basis of a clear definition of the concept, we elaborate a classification delineating three major kinds of electronic services: pure service offers, content offers, and supporting services. This classification helps us in precisely determining the reference object of quality as well as in capturing the domain of electronic services much more comprehensively than in existing studies.

We adopt the service quality framework introduced by Rust and Oliver (1994) as a theoretical basis for our conceptualization. This framework has merit in getting a comprehensive view on QES. Furthermore, it enables us to integrate substantial findings from extant research as well as from a qualitative study that was carried out by the service provider we cooperated with in the course of this study. Building on these insights, we suggest a hierarchical conceptualization of QES with three dimensions (environment, delivery, and outcome quality) and nine subdimensions.

Potential items for measurement of the nine subdimensions of QES are obtained from extant research, the qualitative study, and from additional interviews with four experts (product managers in the field of electronic services). Moreover, a two-stage expert judgment procedure is employed to ensure face validity of the items. Consistent with the aim to test our model for broad applicability, we select three areas of investigation: A service for creation and maintenance of personal homepages (pure service offer), a sports coverage service (content offer), and an online shop for electronic equipment (supporting service). Data are obtained through self-administered online-questionnaires from registered customers of the three services, resulting in a total of 999 usable responses.

For our analyses, we use confirmatory factor analysis with maximum-likelihood estimation in LISREL 8.54. To assess the adequacy of our multi-item measures, we follow standard procedures employed in marketing research (Gerbing and Anderson 1988; Ping 2004), including assessment of item and scale reliability as well as convergent and discriminant validity. The resulting parsimonious scale to measure the nine subdimensions of QES consists of 24 items. In order to test our suggested conceptualization, we specify a hierarchical model containing the nine subdimensions as first-order factors and the three dimensions as second-order factors.

The proposed model fits the data well, thereby providing support for our theoretical reasoning. Furthermore, we assess criterion validity of the three proposed dimensions of QES by examining their correlations with a separate three-item measure of overall service quality. All three correlations are large and highly significant which lends further support for the adequacy of our conceptualization. In addition, we test our model against two other theoretically plausible model specifications and find that it is the best fitting among the three competing models. Finally, we assess our model in each of the three individual samples for generalization purposes. Model-to-data fit is good for all three samples, which provides further evidence of the generalizability of the proposed model.

Our study has several implications for managerial practice as well as for academic research. The consideration of the outcome dimension, for instance, reminds managers of the fact that technology is a means, not an
end. As far as research implications are concerned, there is for example the need to further investigate the role functional and emotional benefit play in evaluation of QES. By and large, this has so far been neglected in related academic research. References are available upon request.

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NETWORK THEORY AND RESEARCH ON BUSINESS-TO-BUSINESS RELATIONAL EXCHANGES IN A DIGITAL BUSINESS ENVIRONMENT

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ABSTRACT

Marketing scholars have extensively used the network theory to explain B2B exchanges. But despite its popularity as a theoretical mechanism, there has been little attempt to examine its contributions in explaining the exchanges in a digital B2B environment. This article provides such a review and provides directions for future research.

INTRODUCTION

While technology has a prominent role in organization theory, its absence in network theory is conspicuous, limited only to specific applications such as electronic data interchange (EDI) (Lummus and Duclos 1995; Kumar and Crook 1996; Wilson and Vlosky 1998) and technology network evolutions (Ford and Saren 1996; Lundgren 1995). Seminal work on the validity of the network theory in explaining these relational exchanges have so far made no attempts to delineate the foundational premises of this theory and its limitations. While the digital environment allows companies new ways to conduct business, they are still merely seen as facilitating technologies not as revolutionizing miracles that change the fundamental course of exchanges (Coupey 1999). Others like Dholakia et al. (1999), whilst acknowledging that electronic markets do have some unique economic characteristics also noted that they do exhibit specific institutional and behavioral patterns. What these patterns represent remains unclear. Earlier, Peterson et al. (1997) have argued that this “new environment” requires a new set of theories adapted to the realities of a radically transformed marketplace. More recently however, Fortin et al. (2002) questioned whether the new electronic environment is really nothing more than a different context for existing theories and hence existing paradigms are still relevant in explaining these exchanges? Drawing from research conducted by the IMP group, Ford (1997) noted that much of the group’s work was grounded in previous business environment that bore little relationship to the changed world of the new millennium. Others like Valla and Salle (1997) also expressed this view but offered no suggestion to push the limit of the network approach in explaining exchanges in this new environment. IMP is thus limited in its capacity to explain these exchanges although the world might have changed since IMP research first started (Ritter and Gemunden 2003).

From a theoretical perspective, it is now timely to start investigating the relevance of network theory in explaining business-to-business (hereafter B2B) exchanges in this digital business environment (Leek et al. 2003). We have left out other theoretical mechanisms such as transaction cost analysis (Williamson 1975) and social exchange theory (Thibaut and Kelley 1959; Blau 1964; Macneil 1980) in the interest of simplification and abstraction. Using the network model proposed by the IMP group in terms of actors, activities and resources (AAR), we have also restricted our description of a digital business environment to only include technology as an activity link and a resource tie (see for instance: Hakansson and Snehota 1992), connecting various other resource elements, in what can be broadly described as technological networks. In the research context of the telecommunications sector, innovative solutions originate from the management of these links connecting a firm’s technology. As a result, existing technological networks are disrupted, new ones created, connecting the interrelated resource and activity parts of emerging networks, and transforming old industrial production, procurement and consumption patterns.

We can observe these transformations in the telecommunications sector as deregulation and privatization set in. The transformation is most obvious for systems developers and equipment manufacturers because of: (1) cost reduction pressures in bringing their technology to market (Bennett et al. 2002), (2) movements towards technology convergence (Achrol and Kotler 1999), and hence the importance of open instead of proprietary solutions, (3) increased pressures and uncertainties when dealing with new competitors (Johnson and Hoopes 2003), and (4) increased outsourcing arrangements (Trent and Monczka 2003). In these contexts, an attempt to delineate conceptual framework of network theory would be useful as we seek to use and understand its applications and limitations thereof in a digital business environment. This has normative implications on how firms in the network manage its relationships as they seek to improve the outcome of their investment.
This article is organized as follows. We begin with an overview of the network approach to B2B relational exchanges. We then review research on technology and networks, including a survey and discussion. These discussions are reinforced by an inductive interpretation of Symbian, a wireless software developer that delivers an open—standard operating system to all its licensees. Based on our interpretations, we propose a series of propositions for future theory development. Finally, we conclude with an examination of the limitations of network theory in explaining these exchanges and offer some suggestions for future research.

THE NETWORK APPROACH IN EXPLAINING B2B RELATIONAL EXCHANGES

Exchange is central to the study of B2B marketing. In the traditional stimulus response approach, exchange essentially takes place “at arm’s length” when contrasted with the network approach, where markets are described as set of interconnected exchange relationships (Cook and Emerson 1984). This interconnectedness of relationships is profiled in terms of activity links, resource ties and actors bonds (Hakansson and Snehota 1992). The exiting activity links, resource ties and actor bonds are often used to characterize the nature of relationships in industrial networks. These relationships contain interdependencies of both a complementary and a substitute nature and involve both cooperation and competition between firms. Significantly, the prior experiences of these relationships are important considerations, such that it limits the abilities of these firms to act independently. This contrasts with the generally low degree of interdependence between firms in the traditional stimulus model of economic exchange, where the buyer’s responses are conditioned by given preference, technologies, organization structures, etc.

Drawing on this brief overview (see for instance work by Easton 1992; Hakansson and Snehota 1992; Hakansson and Ford 2000 for a detailed review), the network approach postulates that exchange interaction involve both social and economic outcomes. These outcomes stem from more or less specialized resource ties and activity links between firms in the network over time. Actors control these resources and/or activities. Actors also base their activities on control over these resources. These resources can however be combined with other resources owned by others in the network, through transformation and transfer activities (Hakansson and Snehota 1992). Information is exchanged between these firms to perform these transformations and transfer activities. In this way, who owns what resources, performs what activities, when—that is, their network roles—is more or less known and determined in advance, in order to achieve the desired network outcomes. Networks of complementarities of resources and activities (Hakansson Snehota 1992) are thus established over time, bounded by arbitrarily established network boundaries (Alajoutsijarvi et al. 1999) that separate one network from another. As these roles become more defined, the networks become more structured. Firms wanting to play a role in the network would find it difficult because of the existing interconnectedness of relationships. This system of interconnected relations makes up the business network, in which the firm is embedded (Wilkinson and Young 2000), with firms operating in the context of these business relations and networks, which in turn affects the nature and outcomes of their actions.

TECHNOLOGY AND NETWORKS

Technology as a Network Resource

A useful way of viewing technology is to see it as an applied ability (Thomas and Ford 1995) because in itself, it has no value. It is not simply the possession of knowledge but rather the ability to apply that knowledge to a particular problem, and hence adding value and generating profit, directly or indirectly (Thomas and Ford 1995). Because no company has all the technology needed to satisfy market requirements (Ford and Saren 1996), these resources are acquired and transformed by other network members, through network interactions. The management of these interactions is therefore a major strategic issue. It is only through these interactions that new technology arises, and hence, in order to understand technological development, it is necessary to understand these relational interactions (Gemunden and Ritter 1997). Technology therefore becomes a major factor in inter—firm relationships and in the evolution of business and technological network structure (Lundgren 1993). In this way, technology provides the logic for having a business relationship (Perry et al. 2002).

Technology as a Network Activity

As an activity link in facilitating resource connections, technology initially gained research traction with the advent of electronic data interchange (EDI) and Just-In-Time (JIT) technology. EDI could improve inventory management and control as well as reduce costs for participants (Wilson and Vlosky 2002). Kumar and Crook (1996) noted the biggest payoffs result from viewing EDI as a strategic business issue and thus an enabling technology for various channel process improvements. Business process reengineering, total quality management and quick response in the retail industry have been some of the practices that electronic communications such as EDI can facilitate (Lummus and Duclos 1995; Naude et al. 2000).

The second stream of research examines the impact of these technologies on communications and relationalism between organizations. For instance, advanced supply
technology provides the logic for having a business relationship and an important activity link in facilitating technology connections, the validity of the network approach in explaining B2B relational exchange can be realistically questioned.

**CASE STUDY: THE CASE OF SYMBIAN OPERATING SYSTEM IN THE WIRELESS NETWORK**

The growth of wireless computing belongs to the smartphone, a powerful device that extends the superb voice functionality of a mobile phone into the realm of data communications. From inception, Symbian’s mission has been to supply an operating system that enables a mass market for communications and information services based on mobile phones (Ancarani and Shankar 2003). To achieve this, the operating system must enable independent technology and software vendors to develop third-party applications, technologies and services, in as short a time as possible. The company delivers an advanced, open, standard operating system to all its licensees. Its operating system is a powerful aligning force for the entire wireless value chain, including: (1) mobile phone manufacturers (Nokia, Motorola, Sony Ericsson, Siemens, etc.), (2) network operators (AT&T, Optus, Telstra, and Vodafone), and (3) software developers (AOL, Sega, and ESPN) – assuring all of them that they are working with an industry standard, open, operating system that allows customization of service. Open standards ensure global network interoperability, allowing mobile phone users to communicate with anyone, any way, at any time (Ancarani and Shankar 2003).

But technology also poses new challenges in the way Symbian views and manages relational exchanges along the entire value chain, and the role of communications and computing technologies in facilitating these exchanges, and hence, its investments. While the company delivers a global network of third-party competency and training centers, enabling many of their licensees to take part in the transformation and transfer of this new technology, and have implemented a strategy that will see Symbian OS running on many advanced open mobile phones, it is doing so against the backdrop of: (1) increasing pressures to reduce the time-to-market, (2) a need to have advanced knowledge of future technologies, (3) need to take into account key functional demands of this system on 2.5G and 3G networks and (4) ensuring that this technology does not limit functionality.

**EMERGING RELATIONAL EXCHANGE CHARACTERISTICS IN DIGITAL BUSINESS ENVIRONMENT**

Whatever else it might be, increasing dependency on communications (and computing) activities in managing

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**Technology as a Resource Link and Activity Tie**

Technology as a resource tie and/or activity link has helped to regulate interactions among firms in the network. But it remains limited and surprisingly silent in its ability to explain the development of relational B2B governance in the new business environment. Instead, the focus so far has been on technology, either as an enabler or inhibitor in facilitating exchanges (Leek et al. 2003). There are no unique institutional and behavioral procurement patterns to the extent that the network approach is unable to explain relational governance. Resources owned and transacted are still more or less specialized. They are still more or less a consequence of earlier exchanges of an existing production system. Technological activities only digitize the business relationship to the extent that it might impact on relationship, communications and causes conflict, and in this way constitute a new business environment, somewhat erroneously. Studies have generally focused on technology as a resource tie and/or activity link to firms with existing relationships (Berthon et al. 2003). EDI for instance, is implemented only between firms that are already involved in the procurement of components that goes into the production of final products. For JIT to work, production and purchasing groups need to change their methods of operation and put their trust in long-term relationships but only with a limited number of suppliers. Technology thus support corporate decision – making on industrial procurement and production and enhances transaction-oriented behavior between buyers and sellers.

But as the following case study demonstrates, for firms to survive in the new digital environment, technology as resource ties and activities links are becoming less specialized, more standardized and commodity – like. While resulting in massive cost reduction, it also allows other firms to add value in ways they see fit. That means becoming less product or production orientated as these firms moves towards a more open, collaborative model of activities link and resource tie. And in the research context of the telecommunications sector where technology often
their technology is first and foremost a potential reality for firms operating in the telecommunications sector (Brennan and Turnbull 1999). Consequently, these firms are now reexamining the role technology plays in: (1) its logic for having a business relationship as a resource tie and, (2) in its capacity as a very important activity in facilitating resource connections. The case, albeit somewhat illustrative and inductive in nature, nevertheless provide us with some useful insights into emerging relational exchange characteristics, against the backdrop of these roles.

**Control Constraints on Technology**

The need to reduce research and development cost is driving companies like Symbian to standardize on elements that take up a lot of these costs but do not add value. With a focus on resource interoperability and upgradeability, other suppliers can then concentrate their R&D in real areas of value adding. Hence, the shift from development of proprietary to open-standard, operating technology. The resources owned by Symbian become less specialized but with increased opportunities for customization. This implies less control and influence over how the technology is used by others, including the transformation and value adding activities performed on this technology. Lesser control constraints also imply existing networks of complementarities of resources and activities becoming less structured. Firms wanting to play a role in the network would find it easier, provided they can add value to the standardized products in areas like better security or better MPLS (multi-protocol label switching for wireless signals). While history influences the future, existing relationships no longer inhibits the development of new relations. This is because yesterday’s technology might become redundant tomorrow, especially when tomorrow’s technology like broadband delivery is based on wireless operating systems that lends itself to customization with network operators, equipment manufacturers, software developers and finally, customers.

In this environment, and in order to ensure on-going resource and activity complementarities, there is an urgency to increase and widen its resource and activity appeal to as many firms as possible. Consequently, tomorrow’s technological network will be based on technology standardization that is shared across the entire value chain. This technology will be seamlessly aggregated and disaggregated as complementarities of networks evolve, instead of networks based on specific connections of resources and activities that evolve over time. This does not mean that firms in the network do not use their network knowledge to influence the outcome of its investment. Indeed they might well do, possibly by integrating multiple steps in the network instead of limiting their role to the production of specialized resource tie and activity link. This leads to our first proposition:

P1: Less technological control leads to seamless aggregation and disaggregation of value creation in an evolving network within the digital business environment.

**Difficulty in Identifying Network Actors**

Industrial networks are primarily concerned with understanding the totality of relationships among firms engaged in the production and distribution of goods and services. But as firms like Symbian shift their focus from proprietary to open – standard operating technology, this opens avenues for value adding to firms that are not traditional producers and distributors of these goods and services. We can see this in the telecommunications sector as it becomes increasingly difficult to identify these firms in the evolution of the telecommunications network. These firms (or individuals) may include (a) innovators who integrate existing technology in new and innovative way, (b) entrepreneurs who identify profitable innovations, and (c) venture capitalists that finance these entrepreneurs.

Coupled with outsourcing as firms seek to decrease value creation inside the firm and, as a consequence, increase the value bought into the firm from suppliers (Ritter and Gemunden 2003), identifying who owns what, does what, when and how becomes more increasingly problematic.

Real value adding content of the kind seen in the telecommunications sector might no longer be restricted and allocated only to firms in a traditional value chain but to firms in a larger stream of value chain or value systems.

Our second proposition is follows:

P2: There is high uncertainty in network boundaries within a digital business environment.

**Information, Information Networks, and the Economy**

While technological innovations are taking place in Symbian, many of these innovations are also taking place with other firms in other technological networks. Investment in these technological innovations then had to be matched with corresponding innovations in these networks. Other firms in these networks will then add real value, actively improving and differentiating their product offerings. The net result is a situation where returns on technological investment are dependent to some extent on what other network actors do to the technology. Knowledge about the technology is acquired, information distributed and shared with these firms, often through strategic alliances in research and development and increasingly, through a specific organizational form, “open”
control of network actors. In technology networks, it is
the network, subjected to external factors beyond the
arbitrary. Network boundaries are in a sense, external to
position it is taken, all network boundaries are essentially
purposes (Alajoutsijarvi et al. 1999). But from whichever
managers’ perceptions or based on researchers’ scientific
product, geography and process.
aries of these nets from others through dimensions such as
characterize the concentrations of nets and hence the bound-
easily established. It is therefore relatively easier to char-
who owns what, does what to whom and when are more
boundaries are much more stable and permanent because
is unlike a matured industrial network. Here network
and when (3) the network is continuously evolving. This
lead to our final proposition:
P4: Network boundaries are infinite and open, in a digital
business environment.
To summarize, either as a resource and/or as an
activity, technology may no longer be more or less special-
ized in a digital business environment. This implies
there could be less control constraints. Actors involved in
transforming and transferring this technology may now
include innovators, investors and entrepreneurs besides
traditional producers and distributors. It may therefore
become more difficult to spot these new actors, especially
in evolving technological networks. This then raised the
conceptual question and difficulties in delineating net-
work boundaries, at the expense of normative impli-
cations. In a digital business environment where industrial
procurement and value chain management increasingly
involves a seamless and continuous aggregation and dis-
aggregation of technology as a resource and/or as an
activity, is the network approach inherently limited as a
theoretical mechanism in explaining these relational ex-
changes? In the process of addressing this question, we
provide the reader with a review of the differences in
relational exchanges between the old and new digital
business environment under a number of premises based
on the network approach (see Table 1).

**LIMITATIONS OF IMP FOR RELATIONAL
EXCHANGES IN DIGITAL
B2B ENVIRONMENT**

A major limitation of network theory has been its
failure as a theoretical mechanism in explaining exchanges
where technology is both the possession of knowledge
and the logic for having a business relationship. Indeed, as
communications (and computing) activities permeate the
totality of the industry, we need to expand its contribu-
tion beyond technology as an activity link to include its
management as a resource and subsequent technology
network evolutions. The fundamental hypothesis could be
“the integration of communications and computing
activities as enablers or inhibitors of resource tie and
networks evolution.” Through these activities, firms such
as Symbian seek to influence the outcome of their techno-
ological investments.

This hypothesis also addresses network theory limita-
tion in explaining network evolution beyond the pro-
duction and distribution of specialized to include less

As such, we postulate that,
P3: There is greater sharing of information assets amongst
the actual and potential network members for the
development of the network within the digital busi-
ness environment.

**Network Boundaries and Decision Making**

Technology has been used to set the boundaries for an
industrial network, albeit mainly in production and prod-
uct development process (Hakansson 1997; Ford and
Saren 1996). Technology also allows us to map out and
understand network evolutions (Lundgren 1993, 1995).
Network boundaries and network evolutions are impor-
tant because it provides network analysts with a tool for
analysis and a language to talk about, based on network
complementarities. It also identifies potential network
strategy. Problems arise when it becomes difficult to
delineate network boundaries. This happens in a B2B
environment when there are: (1) control constraints on
technology, (2) difficulties in spotting network’s actors,
and when (3) the network is continuously evolving. This
is unlike a matured industrial network. Here network
boundaries are much more stable and permanent because
who owns what, does what to whom and when are more
easily established. It is therefore relatively easier to char-
acterize the concentrations of nets and hence the bound-
daries of these nets from others through dimensions such as
product, geography and process.

Network boundaries have either been set based on
managers’ perceptions or based on researchers’ scientific
purposes (Alajoutsijarvi et al. 1999). But from whichever
position it is taken, all network boundaries are essentially
arbitrary. Network boundaries are in a sense, external to
the network, subjected to external factors beyond the
control of network actors. In technology networks, it is
generally beyond the ability of the analysts to delimit the
network, to create network horizons (Anderson et al.
1994) or draw network schemas (Welch and Wilkinson
2002), especially in the new environment. These are ways
in which managers make sense of the interactions taking
place with other organizations.

To summarize, either as a resource and/or as an
activity, technology may no longer be more or less special-
ized in a digital business environment. This implies
there could be less control constraints. Actors involved in
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TABLE 1
Relational Exchanges in the Old Versus Digital B2B Environment

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Market structure</td>
<td>Relationships enabled industrial network.</td>
<td>Information – enabled industrial network?</td>
</tr>
<tr>
<td>Nature of relational exchanges</td>
<td>Face-to-face economic and social exchanges</td>
<td>Information-enabled economic exchanges?</td>
</tr>
<tr>
<td>Resource and / or activity focus</td>
<td>Production – focus, closed – proprietary and more or less specialized</td>
<td>Value – chain integration, open – system and “commodity – like”?</td>
</tr>
<tr>
<td>Control over resources and / or activities</td>
<td>Strict control and management.</td>
<td>Limited and/or no control and management.</td>
</tr>
<tr>
<td>Relational interactions and atmosphere</td>
<td>Face-to-face interaction amidst backdrop of emotional setting.</td>
<td>Virtual interactions with minimal emotional setting?</td>
</tr>
<tr>
<td>Network actors identity over time</td>
<td>Often known, predictable and relatively easy to spot.</td>
<td>Sometimes unknown, unpredictable and relatively harder to spot?</td>
</tr>
<tr>
<td>Knowledge acquisition and information distribution</td>
<td>Specific, useable knowledge and information shared only among those in the network</td>
<td>Available to all who have the technological competency to access it?</td>
</tr>
<tr>
<td>Network boundary</td>
<td>Identifiable complementarities of network resources and activities.</td>
<td>Unidentifiable, borderless networks with overlapping complementarities</td>
</tr>
<tr>
<td>Research emphasis</td>
<td>Provide understanding of existing industrial networks evolutions</td>
<td>Understanding, predicting and managing existing and future network evolutions?</td>
</tr>
<tr>
<td>Views of networks relationships</td>
<td>Constraints on actions and behavior of firms.</td>
<td>Opportunities and/or constraints?</td>
</tr>
<tr>
<td>Research methods</td>
<td>Descriptive, analytical methods of networks</td>
<td>Prescriptive and descriptive, comparative, longitudinal methods?</td>
</tr>
</tbody>
</table>

specialized resource ties and activity links. Symbian wireless software assures mobile phone manufacturers, network operators and software developers that they are all working with an industry standard, open, operating system, thus ensuring customization of service. Instead of specialized, proprietary technology that result in structured networks of complementarities over time, less specialized, open systems technology leads to an ongoing process of convergence, divergence and further convergence and divergence of these complementarities. As a resource base, open system technology is constantly managed and exploited by these firms, this if they are to realize their investments. This is achieved by making the resource base less instead of more specialized and broadening their attractiveness instead of limiting them to firms in the technological network.

Network theory is also limited in its effectiveness when explaining relational exchanges and network developments that are short-term and opportunistic in nature.
This is because exchanges and networks of complementarities can only be established over time. Network researchers have generally suggested that these networks take evolve over a very long period of time (Hakansson and Ford 2000). But given the very nature of open technology, where a seamless transfer and transformation to others is critical to ensure commercial success, firms have less time to fully develop any exchange relationship. This results in less control over how these resources are transformed and with whom they want to have a relationship. Historical relational ties matters less, driven instead by a relationship model that places more emphasis on tomorrow’s network complementarities of resources and activities. Future exchanges could therefore become more short-term and opportunistic, even when a high state of relational exchanges has been achieved in the past. It would thus seem natural to supplement existing network theory with TCA since the latter can be used to explain short-term, non-relational exchanges.

Finally, the validity of network theory in explaining relational exchanges in a new digital environment must be questioned unless they go beyond the limited confines of selective firms and specific digital technology such as EDI and JIT, to include broader B2B digital technologies such as Partner Relations Management (PRM) and Customer Relations Management (CRM). These broader digital technologies create value and affect intra- and inter-organizational that diffuse beyond specific firms in industrial markets to potentially include firms in the broader industrial systems.

**SUGGESTIONS FOR FUTURE RESEARCH**

Future research on B2B marketing using the network approach should (1) note its inherent limitations and (2) extend our understanding of its use to include the four emerging relational characteristics in a new digital business environment.

With respect to the first research imperative, the network approach is not a holistic explanation for B2B relational exchange governance, even when subsequent exchanges become highly relational. When they do, the focus generally has been on the transformation and transfer of specialized, proprietary resource, between firms in the network. But increasingly in the telecommunications sector, resources owned are no longer proprietary. Firms in the network are therefore becoming harder to spot. Technological networks are constantly evolving and becoming less structured. Today’s complementarities of network resources and activities may become redundant tomorrow. Even when past relationships are strong, these may need to combine with future short-term, opportunistic relationships, if they are to successfully influence the outcome of their investment. It therefore seems clear that network theory should be used in conjunction with other theory (e.g., transaction cost analysis) when explaining relational exchange governance in a digital business environment.

The second, and perhaps more important, future research imperative is to extend our understanding of network approach to include new, emerging relational characteristics found in a digital business environment. Staying with the technology theme, we can do this by extending firms – specific digital technologies such as EDI and JIT to include broader digital technologies such as CRM and ERP. Future research can then examine how business outcomes of exchanges and the relational norms that govern them are affected by relational interactions outside of digital technologies limited only to few firms. New relationships with previously unknown firms while hastening potential opportunism, is also inevitable. But potential opportunism also allows the firm the opportunity to influence the evolution of the networks. The firm achieves this by seeking to integrate multiple steps in the entire value chain, and hence influence the investment outcome.

Finally, because not all firms are necessarily technologically competent and neither would many ever want to be in the foreseeable future, a firm’s technological competence is another variable that could extend our understanding of network theory in explaining relational exchanges in a digital business environment. From a network perspective, technology competence could therefore contribute to the explanation of relational exchanges in three ways: (1) its use as an activity link (2) as an activity link to manage technology as a resource base (3) as both an activity link and resource management to influence technological network evolution. Ultimately, however, only the customers can decide which variant of a product he or she prefers, with their preferences filtering down to firms in the competence bloc that creates and delivers the technology. The world may indeed have change since IMP!

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A RELATIONSHIP MARKETING PERSPECTIVE ON THE VALUE OF VIRTUAL COMMUNITIES TO MARKETERS: HOW MARKETER EFFORTS DRIVE TRUST AND TRUST-BASED OUTCOMES

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SUMMARY

The number of individuals participating in virtual communities exceeds the number making transactions online (Horrigan 2001), and the growth in virtual community membership is expected to continue (Ambrozek and Cothrel 2004). In response to this new consumer movement, an increasing number of firms are launching virtual customer communities and marketing researchers have responded by exploring the role of virtual communities in the lives of consumers. Yet, the value of virtual communities to marketers has been given insufficient attention by marketing researchers.

In this study, we focus on the relationship between a sponsoring marketer and its consumers and pose new and important research questions: What specific efforts can a sponsoring marketer use to generate trust with consumers in a virtual community? Does trust in a sponsoring marketer motivate consumers to take actions that benefit the sponsoring marketer? If so, what specific actions would a consumer be willing to take on behalf of a trusted sponsoring marketer?

A virtual community is an aggregation of individuals or business partners who interact around a shared interest, where the interaction is at least partially supported and/or mediated by technology and guided by some protocols and norms (Porter 2004). According to Preece (2000), sponsors of virtual communities can develop management practices and policies that encourage relationship development in virtual communities (i.e., encourage sociability). In this study, we measure a community sponsor’s efforts manage sociability in virtual communities using three variables: perceived effort to provide quality content, perceived effort to foster member embeddedness and perceived effort to encourage interaction.

A relationship-marketing framework supports our theoretical model. We hypothesize that a consumer’s perceptions of a marketer’s efforts to provide quality content, foster member embeddedness, and encourage interaction fosters favorable consumer beliefs about and trust in a marketer that sponsors a virtual community. Furthermore, we hypothesize that consumer trust in a marketer motivates consumers to share information with, co-produce new products with and grant loyalty to the marketer.

We used an online survey to collect data from 663 consumers, and analyzed the data using structural equation modeling techniques. Two pretests were conducted in order to purify the measures. The final measurement model contained 46 items and had excellent fit using confirmatory factor analysis (χ² = 2494.44, d.f. = 923, p < .001; CFI = .99; RMSEA = .053). Measurement analysis showed strong evidence of discriminant and convergent validity and high reliability. The structural model was estimated using LISREL 8.54 and the results show an excellent fit between the model and the observed data (χ² = 3500.80, d.f. = 968, p < .001; CFI = .99; RMSEA = .069; SRMR = .079). The majority of hypotheses were supported.

Our results imply that marketers who want to build trust with consumers in a virtual community should first make efforts to foster consumer beliefs. Our data show that by providing quality content and fostering member embeddedness, marketers facilitate favorable consumer beliefs regarding the marketer’s sense of shared values with and respect for consumers. Notably, fostering embeddedness has a greater positive effect on consumer beliefs than does providing quality content.

This study enhances our theoretical and practical understanding of how relationship marketing operates in a technology-enabled, customer-driven business environment. Our findings not only confirm the central role of trust in generating positive relationship outcomes but also explain how relationship marketing operates in virtual communities. Indeed, we developed new antecedents to trust, and a second-order measure of trust. Finally, we explain the effects of trust by measuring less studied but key outcomes of trust (e.g., willingness to cooperate in NPD).

Consistent with the practitioner-orientation of this research, the exogenous measures in our model reflect elements of a virtual community management strategy that marketers can influence. For example, marketers can influence the type of content in their community (e.g., links to third-party websites) and their efforts to foster...
member embeddedness (e.g., enlisting member support in community management). Our findings suggest that particular efforts of marketers could lead to consumer per-
ceptions and beliefs that ultimately drive consumer trust and trust-based outcomes.

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DETERMINANTS OF E-BUSINESS ASSIMILATION IN ORGANIZATIONS: EVIDENCE FROM AN EMERGING ECONOMY

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SUMMARY

The assimilation of information technologies (ITs) is arguably an important source of future growth for firms and economies (Jonscher 1983). If strategically used, the Internet, the latest IT revolution, can contribute to a firm’s growth by enhancing the market reach and operational efficiency (Porter 2001). Strategic utilization of the Internet entails improvements in IT infrastructure, technological learning as well as business transformations that impact the organization’s people and processes.

Significant difficulties plague the implementation and assimilation of e-business, just like the implementation of other modern ITs (Tait and Vessey 1987; McFarlan 1981). As noted above, successful deployment of a new technology demands mutual adaptation of the technology and the context of the organization adopting the technology (Leonard-Barton 1988; Purvis et al. 2001). Even for established firms, such adaptation or the integration of the Internet into their proven strategies has been a challenge (Porter 2001). All firms are not thus equally capable to overcome barriers to successful assimilation of e-business.

Why are some firms better than others in the assimilation of e-business? This study sheds light on the role of organizational and inter-organizational forces that influence the rate of assimilation of a technology. Following the IT implementation model proposed by Cooper and Zmud (1990) (hereinafter: CZ), we examined the determinants of three levels of e-business involvement: adaptation (the adoption of a website/email), acceptance (number of different e-business activities a firm is engaged in) and routinization (the extent to which a firm’s governance system is adjusted to account for e-business applications).

In the CZ model, whereas the acceptance stage entails technological learning, the routinization stage involves transformation of business practices and adaptation of the organizational structure.

Based on past literature, we developed several hypotheses on the determinants of adaptation, acceptance and routinization of e-business. We measured adaptation by the adoption status of the Internet. We define e-business acceptance (EACCEPT) as the width (Gatignon and Robertson 1985) of e-business adoption – the number of different e-business activities a firm is engaged in. The questionnaire asked whether a firm uses the internet in one or more of the following seven activities: (1) providing price information; (2) advertising; (3) responding to customer inquiries; (4) providing shipping information; (5) providing customer support; (6) providing after-sale services; (7) conducting market research. Similarly, a firm’s degree of e-commerce routinization is defined as the extent to which it has formal and informal rules influencing e-business activities. Nine questions were asked to measure a firm’s degree of e-commerce routinization (EROUT). The explanatory variables included organizational factors such as firm size; and self efficacy and inter-organizational factors such as perceived pressures from competitors; perceived pressures from customers, suppliers and governments; and international linkage.

A cross-sectional personal visit survey was conducted to test the research hypotheses during the summer of 2004 in Kathmandu, the capital city of Nepal. 200 firms were randomly selected from Connection Yellow Pages 2004 (http://www.nepalpages.com/). The respondents were owners, managers or persons responsible for IT related activities. One hundred sixty-six completed questionnaires were returned, with a response rate of 83 percent.

For the adaptation analyses, because of the dichotomous nature, we estimated logistic regression models of the probabilities of adoption of the Internet as the dependent variable. For EACCEPT and EROUT as dependent variables, we employed multiple regression analysis.

We found that firm size has a significant effect on a firms’ probability of adopting a website. Perception of competitors’ use of the Internet also has a significant effect on the probability of a firm’s adopting a website. We also found that perception of competitors’ use of the Internet and self-efficacy variables significantly influence the width of e-business acceptance. Similarly, self efficacy and the perception of the government’s and trading partner’s preference to use the Internet were found to have significant effects on the degree of e-business routinization.

In the CZ model, whereas the acceptance stage entails technological learning, the routinization stage involves transformation of business practices and adaptation of the organizational structure. The results of this study indicate
that companies in developing countries that are big and feel competitive pressure are more likely to jump on the Internet bandwagon than firms that have opposite characteristics. Nevertheless, all firms that climb on to the Internet bandwagon do not equally engage in technological learning and the transformation of internal business practices. Our analysis indicates technological learning can be traced to competitive pressure and self efficacy. Upstream and downstream trading partners, customers and government, on the other hand, force the transformation of business practices.

ENDNOTE

1 This study was funded by the Office of the Associate Provost for Research and the International Program center at the University of North Carolina at Greensboro.

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FACTORS AFFECTING THE PERCEIVED USEFULNESS OF MARKETING INFORMATION SYSTEMS CHARACTERISTICS

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SUMMARY

Marketing information systems (MkIS) are broadly defined as information systems (IS) designed to help managers in making due diligence on marketing issues (Proctor 1991). Although IS literature suggests that the performance of an IS is affected by the fit between the characteristics of the system and relevant contextual variables (Tushman and Nadler 1978), extant marketing literature has paid limited attention to understand how the design of a MkIS is affected by certain factors. Among the few empirical investigations Chenall and Morris (1986) find evidence that perceived usefulness of information improves decision-making and provides benefits to the firm. Moreover, aggregation, time horizon, speed of reporting, and orientation are found to be the elements that managers perceive as crucial in an IS (Chenall and Morris 1986; Gordon et al. 1978). This paper contributes to the marketing literature by examining the influence of market environment, work environment and several characteristics of the decision maker on the perceived usefulness of MkIS.

Our framework draws on three key literature bases and illustrates three categories of antecedents of the usefulness of MkIS characteristics: environmental uncertainty perceptions, decision-maker characteristics and work environment factors (Senn 1987). Environmental uncertainty perceptions are drawn from conceptual frameworks and empirical investigations in organizational design and behavioral decision-making (Duncan 1972; Milliken 1987; Gerloff et al. 1991); decision-maker factors are drawn from the personality and cognitive psychology literature (Budner 1962); work environment factors are borrowed from literature on managerial information processing (Menon and Varadarajan 1992; Goodman 1993).

Method

The data was collected by a survey of marketing executives in New Zealand. Total usable responses were 194. The mean experience of the respondents in their current industry is 8.6 years with a standard deviation of 5.7 years. Moreover, the average marketing experience of the respondents in industries other than the one they are currently working in is 4.7 years with a standard deviation of 5.5 years.

We purified the measures by assessing their reliability and unidimensionality (Anderson and Gerbing 1988). Confirmatory factor analysis (CFA) was performed with EQS (Bentler 1989). The raw data was used as input for the analysis. The chi-square 172.052 (df = 164) is highly insignificant with a p-value of 0.32. Moreover, Bentler-Bonett NNFI is 0.986 and CFI is 0.989, which indicate a good fit of the confirmatory measurement model (Bentler 1990). The results of the CFA indicate that all measures load significantly on their respective constructs at a significance level of 5 percent, which demonstrates adequate convergent validity (Anderson 1987; Anderson and Gerbing 1982; Fornell and Larcker 1981). Discriminant validity of the measures is assessed by adopting the procedure recommended by Bagozzi et al. (1991) and Bagozzi and Yi (1988): we deleted the items until the maximum chi square value in the Lagrange Multiplier test was below 5.00. Once the unidimensionality and convergent validity of each construct is established, we tested the structural equation model with EQS.

Results and Discussion

The structural model was tested using ML estimation. The fit indices indicate an adequate fit of the model: NNFI, CFI, and GFI are all above 0.90. Further, chi-square is 224.855 (df = 186), and the p-value for the chi-square statistic is 0.03. Based on these results, there is sufficient evidence that the model fits the data well.

The results of the structural path analysis reveal that only decision importance has significant impact on all of the dimensions of perceived usefulness of MkIS. The only other significant relationship is the negative association between a decision maker’s variety of experience and his or her perceptions of environmental uncertainty. All other hypothesized paths are insignificant.

This paper fills a gap in the literature as it provides a first attempt in conceptualizing how the design of a MkIS is affected by certain factors. Since the number of insignificant relationships is relatively high, researchers should approach the results of this study with caution and recon-
sider the hypothesized relationships in future studies. For example, theoretical support could be found to hypothesize perceptions of environmental uncertainty as a moderator of the relationships rather than a mediator of the constructs.

Moreover, in an effort to test the nomological net of factors related to MkIS, other variables could be added to the model. For example, in addition to variety of experience, duration of experience of a decision maker, or accuracy of information provided by MkIS could be considered. Finally, scholars might choose to operationalize perceptions of environmental uncertainty as a multidimensional construct and measure the perceived state, effect and outcome of environmental uncertainty. References are available on request.

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WEBSITE SATISFACTION AND BEHAVIORAL OUTCOMES DURING THE INITIAL ONLINE VISIT: MODERATING EFFECTS OF TRUST DISPOSITION AND RISK AVersions

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ABSTRACT

The significant impact of risk aversion and trust disposition on online consumer behavior during the initial transaction suggests alternative means of segmenting customers. While trust disposition did not have a positive impact on loyalty behavior, risk aversion had a negative impact, implying a double blow to service providers. However, risk averse customers, when satisfied, can be more loyal than others, offering service providers some opportunities as well.

INTRODUCTION

The increasing prevalence of the Internet coupled with the efficiency and convenience of online transactions is changing both customer behavior and business practices (Wolfinbarger and Gilly 2003). Although the commercial potential of this medium has encouraged researchers to focus on studying online customer behavior, the field is still exploratory. There is increasing recognition that website satisfaction is fundamental to establish long-term relationships with customers and, hence, ensure long-term profitability of online operations (McKinney et al. 2002; Straub et al. 2002). The first step in establishing a long-term relationship is likely to occur during the initial transaction. Therefore, website satisfaction is critical for a successful transaction.

The rationale for specifically focusing on the initial transaction is two-fold. First, the initial transaction, particularly with a relatively little known service provider, is likely to be determined primarily by the nature of the consumers’ interaction with the website, whereas, subsequent transactions will be influenced by the delivery and consumption of the product/service relating to the initial transaction. Second, generally attracting customers is more difficult and costly than retaining them (Reichheld and Schefter 2000) and can be even more so online due to consumers’ reaction to the new interface characterized by its anonymity, non-personal interaction, need to divulge personal information, and concerns about security and privacy (Hoffman et al. 1999). The most difficult challenge for the online marketer is likely to be to convert first time visitors into actual buyers. Therefore differentiating the initial transaction from subsequent transactions is crucial, as is developing models that adequately explain the initial transaction.

Research has identified some of the main outcomes of website satisfaction such as intention to return and willingness to recommend to friends (Forsythe and Shi 2003; Yen and Gwinner 2003). However, less attention has been paid to the possible moderating effects of customer characteristics. It is likely that characteristics, such as trust disposition (Moore et al. 1987) and risk aversion (Raju 1980), may moderate the relationship between website satisfaction and its outcomes particularly during the initial transaction.

In this paper we propose a model that examines the relationship between website satisfaction and two consumer behavioral outcomes in the context of the initial online transaction. As well, the moderating effects of two key user characteristics, risk aversion and trust disposition, are explored (Figure 1).

Based on the proposed model, we establish and test a number of hypotheses. The paper hopes to make the following contributions to the field of online customer behavior. First, the study of two moderating effects, which have not been tested in an online context, on the relationship between website satisfaction and website outcomes extends the extant literature. Second, the two customer characteristics, trust disposition and risk aversion, proposed as possible moderators, will give more options to service providers in developing alternate bases for segmenting online customers. Finally, by developing a model that captures the dynamics of the initial transaction, we draw attention to the fundamental importance of the initial transaction to e-business.

CONCEPTUAL FOUNDATION

Website Satisfaction

Customer satisfaction is fundamental to the marketing concept, which holds that satisfying customer needs is the key to generating customer loyalty. Satisfaction has been studied extensively in offline environments, often as the single most important construct that determines subsequent customer behavior (Oliver 1997). Research in the
online environment has also emphasized satisfaction as fundamental to establishing customer loyalty. In an empirical study using both online and offline contexts, Shankar et al. (2003) found that overall satisfaction enhanced loyalty and that the positive relationship between satisfaction and loyalty is in fact stronger online than offline (italics added).

Outcomes of Website Satisfaction

An extensive body of literature is available on loyalty as an outcome of satisfaction in traditional offline environments (Zeithaml 2000). Customer loyalty has been defined in terms of multiple behavioral dimensions such as purchase/repeat purchase, propensity for positive word of mouth (WOM), and price tolerance (Boulding et al. 1993); as well as attitudinal dimensions such as commitment (e.g., Shankar et al. 2003), which is similar to affective loyalty proposed by Oliver (1999). The current research focuses on two behavioral dimensions, WOM and purchase intentions, as the key outcomes. WOM has traditionally been defined as oral, person-to-person communication (Arndt 1967). Due to the alternative means of communication made possible by the Internet, it is plausible to broaden this definition to include mediums such as email and to include multiple recipients. WOM communication is known to be a key to profitability (Reichheld and Sasser 1990), and, unlike advertising, is known to be more credible since it is customer generated (Gremler et al. 2001).

Investigating outcomes of satisfaction, Shankar et al. (2003) found that overall satisfaction with online service encounters led to loyalty towards the service provider. It is therefore likely that website satisfaction will lead to positive purchase intentions. However, its impact on WOM especially as a result of the first website visit is not clear. Based on the strong impact that satisfaction is known to have on WOM, we hypothesize that:

H1: Website satisfaction will have a significant, positive relationship with purchase intentions and positive WOM.

Effects of Characteristics

Marketing literature provides clear evidence that customer characteristics often have both direct and moderating effects on customer attitudes and behaviors (e.g., Dabholkar and Bagozzi 2002; Meuter et al. 2003). The focus in the current study is on both the main and moderating effects associated with online behavior. We propose that risk aversion and trust disposition will have significant main effects on loyalty outcomes, as well as moderating effects on the satisfaction → outcomes link, especially during the initial transaction.

Moderating Effects of Trust Disposition

Trust disposition can be divided into two components, global and specific. The global component is an attitudinal or affective component that reflects an overall view of the world, whereas the specific component is more situational and cognitive (Driscoll 1978). Considerable effort has focused on understanding the role of context specific trust, labeled online trust (e.g., Shankar et al. 2002). However, little attention has been paid in the online literature to global level trust, which can have a strong impact on situations where consumers do not have prior experience (Grabner-Krauter and Kaluscha 2003). This construct, which can be defined simply as the propensity to trust others (cf., Mayer et al. 1995), is based on the recognition that people develop generalized expectations about the trustworthiness of other people over the course of their lives.

An initial transaction with a website is a similar experience. A common reason for feeling hesitancy towards the Internet as a medium for commerce is that the purchase context is characterized by a lack of face-to-face interactions, often with an unknown service provider (Grabner-Krauter and Kaluscha 2003). In this context, a customer’s ability to trust the prospective partner, captured by the customer’s global level trust disposition construct, is likely to have a positive impact on subsequent behaviors, indicating a direct effect of trust disposition. Ring and Van de Ven (1994), however, argued that high trust disposition does not mean blind faith.

Consumers are unlikely to have positive attitudes towards a website because of their trust disposition alone and they will seek other sources of information to safeguard themselves. During an online transaction the primary source of information is the website. For those who are satisfied with the website, high trust disposition is likely to reinforce the effect of satisfaction on subsequent behaviors. Therefore:

H2: Trust disposition will have a significant, positive relationship with (a) purchase intention, and (b) positive WOM.

H3: Higher levels of trust disposition will have a positive reinforcing effect on the relationship between website satisfaction and (a) purchase intentions, and (b) positive WOM.

Moderating Effects of Risk Aversion

Risk aversion, the extent to which people feel threatened by ambiguous situations (Hofstede and Bond 1984), is known to have different impacts on decision making across contexts. Bao et al. (2003) claimed that the role of
risk aversion has been unexplored, and that it needs further study. Shimp and Bearden (1982) found that highly risk-averse customers search for more information during purchase situations. If so, customers may be satisfied with a website but still seek further information prior to making a purchase. This indicates that during the initial transaction, risk aversion can have an attenuating effect on the website satisfaction → purchase intentions link. If a customers’ risk averse nature attenuates intentions to purchase from a particular website, such customers are even less likely to recommend the same website to third parties, indicating a similar attenuating effect on WOM.

Often cited as one of the major reasons why consumers are unlikely to complete an online purchase is their concern regarding the consequences of providing personal information including credit card data to online marketers (Hoffman et al. 1999; Lee and Turbin 2001). If so, those who are risk averse are less likely than others to move to the behavioral stage. This indicates a main effect of risk aversion on purchase intentions in addition to a moderating effect. While WOM does not involve provision of personal information, risk aversion can also have a negative impact on WOM arising from a sense of responsibility towards the recipient. Therefore:

H4: Risk aversion will have a significant, negative relationship with (a) purchase intentions and (b) positive WOM.

H5: Higher levels of risk aversion will have an attenuating effect on the relationship between website satisfaction and (a) purchase intentions and (b) positive WOM.

**METHODOLOGY**

The model (Figure 1) was tested in a quasi-experimental setting, which enabled the separation of the online purchase from the subsequent service experience, via an online survey. Websites of two vacation hotels in the Caribbean were selected, and approximately half the population was randomly assigned to each website. Two websites, different in terms of layout, graphics, and mode of online booking, were selected to increase the generalizability of findings. Respondents were asked to assume that they had decided to go to the Caribbean Island of Antigua for a four day vacation; that they would book their accommodation online; and that the price was within the range they had in mind. After searching the hotel website, they were asked to “decide” whether or not they would book that hotel, and then respond to the questionnaire. The items (seven point Likert scales) used in the survey instrument were based on previously validated scales. *Customer satisfaction* has been operationalized as both transaction specific, and cumulative (Rust and Oliver 1994). The former fits the current context of an initial transaction with a website. Cronin et al. (2000) used a tool that reflected both these “emotion based” measures and “evaluative” measures. We adapted items representing the evaluative and emotive aspects of the construct to fit the transaction specific context. The *global trust disposition* measures were based on previous work by Grabner-Krauter and Kaluscha (2003) and Cheung and Lee (2000). The *risk aversion* scale was based on a refinement by Bao et al. (2003) of Raju’s (1980) measures of risk aversion. Both purchase intentions and WOM intentions have often been conceptualized and operationalized as dimensions of customer loyalty in offline settings (e.g., Boulding et al. 1993; Zeithaml et al. 1996). The *purchase intentions* measures were adapted from Bansal and Taylor (2002). *WOM intentions* were operationalized based on Gremler and Gwinner (2000)’s conceptualization consisting of both voluntary and involuntary recommendation.

The sample frame was drawn from among administrative staff of a university, business students, and employees at a small business firm. It ensured the capture of the different characteristics proposed as moderators in this study. The survey was web based. To encourage participation 10 prizes of $100 were offered. The overall response rate was 19.7 percent, resulting in a valid sample of 192, with no significant non-respondent bias. Spread in terms of age, gender, level of education, and income illustrated sample heterogeneity.

**DATA ANALYSIS AND RESULTS**

A confirmatory factor analysis was performed on the scales using LISREL8 with ML (Maximum Likelihood) estimation (Joreskog and Sorbom 1993). For assessing model fit, three fit indices in addition to the traditional \( \chi^2 \) are reported. Since \( \chi^2 \) is sensitive to sample size variations, \( \chi^2 / df \) (Chi-square/Degrees of Freedom) is reported instead. Additionally, a combinatorial rule involving the CFI (Comparative fit Index) and SRMR (Standardized Root Mean Square Residual) is used to assess model fit. Acceptable model fit is indicated by values of \( \chi^2 / df \geq 5.00, \) and the combinatorial rule suggested by Hu and Bentler (1999) of SRMR ≤ 0.08 AND CFI ≥ 0.95 for ML estimations. Overall model fit indices indicated that the measurement model was reasonably consistent with the data, with all the fit indices at or better than the recommended values (\( \chi^2 = 324.90 \) [p < 0.01], \( df = 80, \chi^2 / df = 4.05, \) SRMR = 0.053, and CFI = 0.96). As suggested by Bollen (1989), a scrutiny of factor loadings as well as the squared multiple correlations between the items and the constructs was done to further assess the validity of the measures. All the measures were above recommended limits.

Hypothesized paths in the model were also tested using LISREL8 (Joreskog and Sorbom 1993) with maximum likelihood (ML) estimation. To assess the interac-
FIGURE 1
Conceptual Model

Satisfaction

Risk Aversion

Trust Disposition

Satisfaction × Risk Av.

Satisfaction × Trust Disp.

H1 +

H2 +

H3 +

H4 -

H5 +

Purchase Intent

Word of Mouth

Legend

Significant Paths:

Non-Significant Paths:

Significance at 0.05 Level: **

Significance at 0.10 Level: *

All results standardized

t-values in parenthesis

FIGURE 2
Results

Satisfaction

Risk Aversion

Trust Disposition

Satisfaction × Risk Av.

Satisfaction × Trust Disp.

0.90

0.99

0.18

-0.12

0.01

0.10

0.05

0.17

0.07

0.90

0.99

-0.18

-0.12

0.01

0.10

0.05

0.17

0.07

(14.60)**

(18.23)**

(-3.74)**

(-3.57)**

(0.22)

(-0.91)

(2.43)**

(1.81)*

(4.09)**

(2.07)**

Purchase Intent

Word of Mouth

R² = 0.07

Model Fit

χ² = 292.30, d.f. = 97, χ²/d.f. = 3.01

GFI = 085, NFI = 0.95, CFI = 0.96, SRMR = 0.05
tive relationships in predicting purchase intentions and WOM intentions, the procedure suggested by Ping (1995) was used.

The fit statistics indicated that the model with interaction effects provided a good fit to the data ($\chi^2 = 292.30 \ [p < 0.01], df = 97, \chi^2/df = 3.01, SRMR = 0.050, and CFI = 0.96$). The model accounted for 97 percent of the variance in WOM intentions and 83 percent of the variance in purchase intentions. Figure 2 summarizes the results of this model.

As shown in Figure 2, most path coefficients were as hypothesized. The paths from satisfaction, risk, the interaction between satisfaction and trust disposition, and the interaction between satisfaction and risk aversion, to purchase intentions and WOM intentions were significant. However, the direct paths from trust disposition to purchase intentions as well as WOM intentions were nonsignificant. Moreover, the direction of the paths from the interaction between satisfaction and risk aversion to purchase intentions and WOM intentions were opposite to what was hypothesized. In brief, we found support for hypotheses H1a and H1b, H2a, and H2b, and H5a and H5b, but not for hypothesis H3a and H3b. There was support for hypothesis H4a and H4b in terms of significance, but not in terms of direction.

DISCUSSION

Effects of website satisfaction: The effect of website satisfaction on both purchase intentions and WOM intentions was significant. The latter effect is especially interesting, given that even during an initial transaction, prior to actual consumption of the service experience, customers, or indeed prospective customers, appeared willing to recommend the website based on what they saw on the site, and the resultant satisfaction with the site. Since WOM reflects a true form of loyalty, the results indicate that companies need to be aware that building loyalty begins during the very first visit. Given that the Internet enables easy and fast communication channels expanding the opportunity for word of “mouth” on line, satisfying customers during the initial visit can potentially lead to free advertising in the form of recommendations to friends and family. This is an opportunity that web based service providers should leverage to gain a competitive advantage.

Effects of Trust Disposition and Risk Aversion

While main effects of both trust disposition and risk aversion were hypothesized, only risk aversion had a main effect on purchase and WOM intentions. The absence of a main effect of trust disposition is noteworthy given that risk aversion had a significant negative main effect on the behavioral outcomes. It shows that mere presence of positive valence (the extent to which a customer thinks about the outcome of the transaction to be positive), arising from a positive global trust disposition is not adequate for a customer to move to the actual behavioral stage. However, the presence of negative valence, arising from inherent risk aversion, acts in significantly constraining action. These results are also consistent with the idea that trust disposition does not necessarily mean blind faith.

Both risk aversion and trust disposition had significant moderating effects. Ajzen and Fishbein (1977) argued that hypothesizing direct effects are somewhat obvious and that it is more meaningful to investigate moderating effects of external factors such as consumer and situational characteristics. Moreover, finding the presence of moderating effects in empirical settings is also known to be difficult (Chaplin 1991). As such, detection of even small interaction effects is considered to be substantive (Evans 1985). Hence, the interactive effects found in the current study can be considered significant detections, contributing to extant literature on the moderating effects on online behavior.

The moderating effect of trust disposition on the relationship between website satisfaction and behavioral intentions indicates that, as expected, trust disposition reinforces the impact of satisfaction on both purchase and WOM intentions. While risk aversion also had a significant moderating effect, what is surprising is the direction of the effect. The positive sign indicates that risk aversion also reinforces loyalty intentions. This is opposite to what was expected. Further statistical and graphical analysis of the moderating effects recommended by Irwin and McClelland (2001) showed that this reinforcing effect occurs at the high end of the satisfaction scale. At low levels of satisfaction, risk aversion plays no significant role in influencing customer behavioral intentions. Provided customers are satisfied, risk averse consumers are both more likely to purchase as well as give positive WOM. While this result is counter-intuitive, it is also plausible. Possibly those who are risk averse feel more committed to what they like and have no desire to look for alternatives since that would lead to facing new ambiguous situations. The less risk averse consumers, who are more likely to be variety seekers, may look for more alternatives despite being satisfied with a particular website, thinking that they might find something equally good, or better. This presents the service provider with an opportunity to leverage the inherent dislike of the risk-averse individual to seek new situations. Knowing that provided they are satisfied, they are more likely to be loyal by first making a purchase, and second, remain loyal by spreading positive WOM, it is crucial that such customers are provided with all the cues necessary to make them satisfied.

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CONCLUSIONS

Website satisfaction was the main driver of the two behavioral outcomes; purchase intentions and word of mouth intentions during the initial transaction. Trust disposition had no main effect. However, risk aversion had a small negative main effect indicating that a service provider has a challenging task to convince inherently skeptical customers to purchase online for the first time. The two customer characteristics both played a significant moderating role in online behavior during the initial transaction. As such, service providers have opportunities to segment customers in order to cater to these unique customer groups. These findings will assist online service providers in addressing a major challenge; increasing the success of converting browsers to purchasers during the initial transaction.

REFERENCES


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WEB-SITE INTERACTIVITY: DEFINITIONS AND USER PERCEPTIONS

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SUMMARY

“Interactivity” is a key (and unique) feature of the Web. As a result, marketers are interested in building interactive Web sites. In this conceptual paper, we identify three different approaches (i.e., feature-based, perception-based, and combination of both) for understanding the concept of interactivity, and we suggest consensual definitions. Next, we examine relationships among Web features, interactivity perceptions and site effectiveness. We identify key site features that contribute to interactivity perceptions and subsequently affect site effectiveness (e.g., loyalty). We propose that individual characteristics (e.g., involvement, Internet experience) play important roles in the relationship between site features and interactivity perceptions.

Many Web designers and managers often seek to build “interactive Web sites” to attract customers and increase loyalty. To date, there are a variety of definitions and conceptualizations of interactivity in different fields (e.g., sociology, communication, advertising, human-machine interaction literature, marketing). Relatively few studies have attempted to synthesize its scattered meanings and provide a classification scheme. Here, we attempt to create such a synthesis by identifying three ways of defining interactivity: (1) feature (process)-based interactivity, (2) perception-based interactivity, and (3) combination of both. The feature-based approach suggests that interactivity resides in the processes or features of a communication medium (Heeter 1989). We identify two views within the sphere of feature-based interactivity: (1a) communication view and (2b) telepresence view. A second approach is perception-based and focuses primarily on how individuals perceive interactivity (cf., Newhagen et al. 1995; Wu 1999; McMillan and Downes 2000; McMillan 2002a). In our classification scheme, perceived interactivity contains three dimensions: (2a) two-way communication, (2b) self-efficacy, and (2c) system-efficacy.

There is considerable debate about how interactivity is defined or conceptualized (cf., Jensen 1998; Kiousis 2002; Liu and Shrum 2002). To date, little consensus has been reached, specifically in the case of the Web. Based on reviewing the extant literature and various definitions, we attempt to provide two hybrid definitions of interactivity: (1) feature-based and (2) perception-based. Feature-based interactivity is defined as the degree to which a Web site creates a mediated environment where participants can communicate with each other and modify forms and messages in real time. We define perceived interactivity as the degree to which users perceive that a Web site facilitates interpersonal communication, gives control over online experiences, and responds to human actions quickly.

What is the best way to increase the level of consumers’ interactivity perceptions of a site? What are key site features affecting interactivity perceptions? Very little research has been done to identify site features (e.g., chat room, site map) that contribute interactivity perceptions. Most existing research has identified site features that facilitate structural interactivity or has developed a scale to measure perceived interactivity. By identifying site features affecting interactivity perceptions, we create a conceptual model exploring the relationship among site features, interactivity perceptions, and site effectiveness. Stimulus-Organism-Response framework in store atmosphere literature, social presence theory, social cognitive theory, and TAM (Technology Acceptance Model) are used as theoretical backgrounds in building a model and 17 propositions. We propose that certain site features (e.g., level of transaction facilitation, number of options) affect interactivity perceptions and subsequently influence Web-site effectiveness (e.g., satisfaction, loyalty). The moderating effects of individual characteristic variables (i.e., involvement, Internet experience, desire for control, privacy preferences) and situational variable (i.e., job goal) are also considered.

Many companies invest their resources to build interactive Web sites to accomplish their e-objectives (e.g., satisfaction, loyalty, purchase). However, interactivity resides in the eyes of users, not in system itself. Our model identifies key Web design features that increase interactivity perceptions. We also suggest that Web designers and practitioners should consider the role of individual characteristics and situational factor in the formation of interactivity perceptions. Our model suggests several avenues for researchers. Given that the current definitions of interactivity are inconsistent, our classification scheme and hybrid definitions might be useful in guiding future research on interactivity. Many empirical studies have measured interactivity in terms of levels (e.g., presence vs. absence, number of features) of
interactivity features. However, without valid manipulation check and considering individual characteristics, it is impossible to understand whether consumers perceive certain features interactive or not. References available upon request.

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INSTITUTIONAL LEGITIMACY, CUSTOMER ORIENTATION, TRUST, AND FIRM PERFORMANCE

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SUMMARY

This paper suggests that customer orientation alone may not always be enough to make a difference in firm performance. Indeed, strong interfirm ties with the whole supply chain are critical to explore and exploit more customer value. Companies with orchestrated channel efforts and with shared customer intelligence and operating costs may find it much easier to implement a customer-oriented strategy and, thus, benefit more from customer-focused trust-promoting tactics.

A recent research stream in relationship marketing suggests that customer orientation may lead to competitive advantages for a firm through exploring and exploiting a trusted and committed relationship between the firm and its customers, uncovering a customer orientation – customer trust/commitment – firm performance (CTP) causal chain. We agree, and suggest that institution theory may enrich our understanding of this CTP chain. Particularly, a firm may expand the benefits of a customer orientation strategy by leveraging institutional legitimacy. For example, institutional networking (defined as the social ties between a firm and its external institutional actors such as channel members and government agencies) may provide access to not only valuable market intelligence but also supporting authority in reinforcing the firm’s reputation. Although the influence of the institutional environment is ubiquitous in the marketplace, marketing strategy research, unfortunately, has largely overlooked the importance of the legitimacy-based institutional environment to the implementation of customer orientation strategy.

The present research is to develop a theoretical model incorporating the contingent role of institutional networking in the CTP chain, and test the complicated moderating influence of two types of institutional networking – channel and government networking. We address and find both positive and negative influence of government networking in changing the strength of the CTP linkages, supporting the diminishing returns to government networking.

We believe that success in today’s business derives from a combination of customer-focused strategies, supporting institutional networking with supply chain members, and, an optimal level of networking ties with government agencies. We recommend future studies to investigate further on the different types of institutional environment, and track their influence in an institution-based marketing organization over time. References available upon request.

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CUSTOMERS ARE FROM VENUS, COMPETITORS ARE FROM MARS:
A STUDY OF THE DIFFERENTIAL MECHANISMS DRIVING
RESPONSIVENESS TO CUSTOMERS AND COMPETITORS

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SUMMARY

In times of increasing competition and constantly evolving customer needs, responsiveness to environmental changes has become a vital success factor for companies. However, previous research on organizational responsiveness has typically looked at either competitor-related responsiveness in specific contexts (e.g., with respect to new product introductions) or customer-related responsiveness in specific contexts (e.g., with respect to customer complaints). To the best of our knowledge, there is no study which looks at organizational antecedents of general responsiveness to both, customers and competitors, and explores differences regarding the forces driving these two facets of organizational responsiveness. We feel that this is a limitation, since it may well be the case that both are driven by differential mechanisms in the company.

Against this background we investigate customer-related responsiveness and competitor-related responsiveness as separate constructs in an integrative model. Based on open systems theory, we propose a theoretical framework where the orientation of organizational subsystems influences customer-related and competitor-related responsiveness and where responsiveness leads to improved firm performance. More specifically, we introduce the notion of affective and cognitive organizational systems as key internal drivers of market-related responsiveness. While the cognitive system refers to information processing within the organization, the affective system refers to the emotionally charged cultural values and beliefs within the organization.

Based on this distinction, we propose that responsiveness to customer-related changes is more strongly driven by the affective system than by the cognitive system. We argue that the high degree of social interaction connected to customer-firm relationships creates an affect-intensive environment, where the affective system of the organization becomes the main determinant of responsiveness. Likewise, the need for spontaneous decisions and the willingness of customers to openly share information about their needs and wishes increases the effectiveness of the affective systems as a driver of customer-related responsiveness, while it reduces the time and need for cognitive organizational information processing.

On the other hand, we propose that responsiveness to competitor-related changes is more strongly driven by the cognitive system than by the affective system. Due to the near absence of social interaction between managers of competing companies, responsiveness to competitive actions hinges only to a small extent on affective responses. Instead, the reduced need for spontaneous decisions and the increased need to interpret “fuzzy signals” and contradictory information in an environment where information is not shared openly, strengthens the effectiveness of the cognitive system as a driver of responsiveness.

Based on a sample of 280 companies from several industries, we use causal modeling to test our propositions. Our findings clearly confirm our propositions. More specifically, we find that customer-related responsiveness is more strongly driven by the affective system than by the cognitive system. Contrarily, competitor-related responsiveness is more strongly driven by the cognitive system than by the affective system. In addition, our findings support a positive link between responsiveness to customers/competitors and performance. In this context, our results show that responsiveness to customer-related changes in the environment is a more important driver of firm performance than responsiveness to competitor-related changes.

Besides expanding our theoretical knowledge of the forces driving organizational responsiveness to customer and competitors, this study is also relevant from a managerial perspective. Generally speaking, research on antecedents of customer-related and competitor-related responsiveness is important for managers, since it provides guidance on how to design an organization for high responsiveness to customers/competitors. However, when allocating budget, staff and personal involvement to create an organization that is responsive to environmental changes, managers often find themselves in situations, where they cannot change all organizational subsystems at once and with the same priority. In these situations, our results allow managers to make decisions that are more informed, as they account for differences in the relative effectiveness of the two subsystems.
THE JOURNEY FROM MARKET ORIENTATION TO PERFORMANCE: A CONTINGENT FRAMEWORK

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SUMMARY

This paper proposes a conceptual framework to explain the major determinant of entrepreneurial firms’ performance: market orientation, which is moderated by social capital and environmental turbulence. The followings are the four hypotheses we tried to test in this paper:

Hypothesis 1: Market orientation is positively related to performance;

Hypothesis 2: The positive effect of market orientation on performance becomes stronger as (a) trust, (b) norm, or (c) reciprocity increases;

Hypothesis 3: The positive effect of market orientation on performance becomes either (a) stronger or (b) weaker as reliable information increases;

Hypothesis 4: The positive effect of market orientation on performance becomes weaker as (a) market turbulence or (b) technology turbulence increases.

Empirically, we investigated 140 Taiwanese entrepreneurial firms in the mature industries. The prediction of positive effect of market orientation on performance is significantly supported. Meanwhile, the moderating effects of social capital and environmental turbulence are proved to exist but with mixed results from our original predictions. Our study makes contributions to both academicians and practitioners for its advancing knowledge and implications of the empirical evidence in the context of Taiwanese entrepreneurial firms operating in the dynamic business environment.

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ASSESSING HIRING CRITERIA ACROSS SALES MANAGERS AND SALES REPRESENTATIVES: IMPLICATIONS FOR MARKETING EDUCATION

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SUMMARY

As marketing graduates enter an increasingly competitive job market, understanding the skills sought by marketing practitioners will help marketing educators prepare students for the work place. Since almost 70 percent of entry-level positions are in sales or customer service (College Placement Council 1994), understanding the skills cited as necessary by both sales managers and sales representatives who screen and interview candidates will be beneficial to the education of marketing students. Previous studies in the general marketing education literature have focused primarily on the importance of the different skills that are required of marketing and business majors as well as MBA students prior to entering the workforce (cf., Arora and Stoner 1992; Barr and McNeilly 2002; Boatwright and Stamps 1988; Floyd and Gordon 1998; Hafer and Hoth 1981; Kelly and Gaedeke 1990; Levenburg 1996; McDaniel and White 1993; Tomkovick, Erffmeyer, and Hietpas 1996). Yet, despite this emphasis, there still appears to be certain gaps in at least some of this prior work that suggest areas for additional research endeavor.

Given that most entry-level marketing positions are in sales, a need exists to better understand and provide classroom learning experiences that will develop a student’s skill sets and enhance his/her job opportunities. In an effort to address this, the purposes of this study are fourfold. First, this study seeks to identify and compare the skills and characteristics that sales managers and sales representatives believe marketing majors need in order to obtain entry-level sales positions. Second, this study aims to determine whether those individuals within an organization who are responsible for hiring, e.g., sales managers and sales representatives, differ in what they look for in job candidates when reviewing resumes and conducting interviews. Third, our study taps practitioners’ perceptions regarding those classroom activities that build and strengthen the skills that are desired by hiring organizations. Finally, since MBA and undergraduate students sometimes interview for the same marketing positions, the current study also examines the perceptions of sales managers and sales representatives regarding whether a graduate degree is beneficial or even necessary for entry-level sales positions.

This study employed both exploratory and confirmatory analysis. In the first phase, a qualitative research design was utilized. In-depth interviews were conducted with both sales managers and sales representatives with the purpose of understanding their perceptions concerning hiring criteria, the value of classroom activities to prepare students for entry level sales jobs, and the value of a graduate degree (i.e., MBA). After obtaining initial information and direction from the exploratory design, a second, quantitative phase was conducted in order to offer more conclusive understanding of the issues identified in the qualitative stage.

The qualitative phase (1), identified a set of preliminary categories, consisting of “desired skills and characteristics,” “interviewing skills,” “resume content review,” and “valuable classroom activities.” Each of these categories consisted of multiple items and were judged to be qualitatively reliable based on the results of a content analysis. These items were then used as Likert type importance measures and were given to 111 sales executives. Principal components factor analysis revealed a total of 16 different factors which included basic skills, experiential learning, acquired skills, college accomplishments, time/organization, interactive skills, educational experiences, extra curricular activities, critical thinking, objective assessment, individualized learning, technical skills and MBA degree value. These items were summed to form a composite index whereby means differences (t-tests) could be used to assess the difference in perceived importance of each attribute across two groups including sales representatives (n = 40) and managers (n = 71).

In general, basic skills, experiential learning, acquired skills, college accomplishments, interactive skills, educational experiences, extra curricular activities, objective assessment, technical skills, and MBA degree value were all different across the two groups of sales representatives and sales managers with sales reps placing the most importance on basic, and interactive skills coupled with educational experiences.

Overall the study found that not only do the identified skill sets partially mimic what has been suggested in prior
literature but that they also include certain attributes that have not been considered to be relevant or important in any prior research. Moreover, because the relative weight attributed to certain types of skills appears to differ across levels within the organization, it behooves those who are preparing individuals for sales positions to understand the requirements and expectations of those who are actually engaged in the hiring process. Finally, students who expect that furthering their education via MBA study should perhaps reevaluate that decision in light of the fact that irrespective of level in the organization, corporate recruiters appear to perceive the qualifications of those with and without an MBA to be essentially similar. We hope that this study sheds additional light on how marketing educators can optimally impact and influence the candidacy of marketing graduates in securing entry-level positions in sales. References available on request.

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SUMMARY

Rooted in Kolb’s model of experiential learning (1984), many business educators have developed various pedagogical methods including: active learning, problem-based learning, team-based learning, and service learning. Each of these methods incorporates the basic components of Kolb’s model: (1) abstract conceptualization, (2) active experimentation, (3) concrete experience, and (4) reflective observation. Hunt and Laverie (2004) assert that experiential learning is an excellent method for creating the environment necessary for students to develop professional skills and creatively explore course material. Grounded in experiential learning pedagogy, service learning elucidates the connection between theory and practice by providing opportunities for real-world experiences. Informed by civic engagement, service learning engenders in students a sense of civic and social responsibility and strengthens institutional partnerships with the community while providing much needed service to the public (Saltmarsh and Zlotkowski 2004).

The service learning experience reported here took place in an MBA Business-to-Business (B2B) Marketing class taught at Texas Tech University during the Spring 2005 semester. The impetus for implementing service learning came from students who had taken the class during the previous year. Using a clever analogy, several students said that they had learned a lot of recipes in the class, but believed that they would learn better if they had some opportunities to cook. Given the motivation to apply course knowledge on a real problem for an actual client, a project-based approach was called for. By carefully selecting the clients, the students could apply their knowledge to meaningful projects that benefit the students’ own community.

During the Fall 2004 semester, the first author (the course instructor) and the second author (the university’s service learning coordinator), along with the director of service learning at Texas Tech, identified approximately a dozen potential community partners, or clients. The authors met with each potential client, and carefully evaluated them on three criteria. First, the client had to have at least one specific need that matched the goals of the course, and that could be completed in a single semester. Second, the client had to be willing to put enough time into the project, to meet with the student teams, and to provide the data necessary to complete the project. Finally, particular to service learning, the project had to provide an opportunity to benefit the community. We finally agreed to work with four clients, on six projects.

A total of 27 students participated in the class. They were allowed to self select into one of six teams. Two of the teams with particularly difficult tasks had six members each. One team had only three members after their fourth dropped the class. The other three teams had four members each. The majority of the students had no full-time work experience and entered the MBA program directly from their undergraduate studies. Twelve of the students did have between six months and seven years of full-time work experience. Twenty-on of the students were male and six were female.

One team worked with a local fine arts organization to conduct a study its board of directors. The executive director will use the team’s work to guide efforts to increase board member involvement. This team surveyed the board (after they developed a survey instrument) and conducted a benchmarking survey of similar arts organizations around the country. Another team conducted a brand image study for a branch of the university. This team developed a questionnaire and conducted the survey. Two teams worked with the college’s career management center. One of these teams conducted interviews with recruiters to understand their attitudes about the college and the recruiting experience in order to enhance the relationships. The other team analyzed data that the career center had collected previously from recruiters. Then, they studied the student body’s attitude toward the career center using focus groups and brief mall intercept surveys. The other two teams worked with a private firm that, along with the university, developed a unique turf grass that is more suitable to the arid Southwest than other grasses currently being used in the area for lawns. Although the client is a for-profit entity, their product has far reaching consequences on water usage through this region of the country, and could have the most significant social benefit of all of the projects. One team focused on promotional issues including a redesign of the brochure, logo, and trade show booth, as well as a marketing promotion plan. The other team focused on more strategic
issues including branding, market segmentation, positioning, and distribution strategies. Both teams were to also analyze the product’s price as part of their efforts.

The teams gave bi-weekly progress reports in class, allowing the instructor to track each team’s progress, but also reminding each team of the approaching semester deadline. Initially, each report ran ten to fifteen minutes and typically turned into mini-work sessions. The instructor also used these opportunities to teach various marketing concepts, as appropriate. By the end of the semester, the time dwindled to less than five minutes per report. Each team was required to have at least one in-class work session. Some teams had two. The work sessions ranged in time from 30 to 80 minutes. In reflective papers, students cited these work sessions as the most valuable learning opportunity in the course. These work sessions gave each team insight into five other applications of the course concepts, beyond the relatively narrow focus of their own project.

Assessment of the pedagogy is a critical element of active learning. This class used several including: two student reflection papers, two assessment surveys, client interviews, project deliverables, and instructor evaluation. Many students remarked in their reflective papers that despite having no exams or papers outside of their projects, they worked harder in this class than any other MBA class. Furthermore, most students believed that they learned more than in other classes. They had fun applying their knowledge to real projects, especially ones that made a difference. Although the projects varied in terms of quality and success, only one was less than satisfactory. Most of the projects exceeded the professor’s expectation in terms of quality, effort, and knowledge displayed by the students. All of the clients reported satisfactory outcomes.

Although the professor reports here that this was the most demanding graduate course he has ever taught, it was also the most rewarding. References available upon request.

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ABSTRACT

What should teachers of marketing management do to maximize learning outcomes for students? Given the context of the philosophy of critical learning, a unique application of case studies, projects, reflection papers and movies can be effectively utilized to teach particular skills and dispositions.

INTRODUCTION

Weimer wrote the popular Learner-Centered Teaching to answer the question: “What should teachers do in order to maximize learning outcomes for their students?” (Weimer 2002, p. xii). She suggests that when “teaching is learner-centered, content is used, not covered, and it is used to establish a knowledge foundation” (Weimer 2002, p. xviii). She also suggests learner-centered teachers are “guides, facilitators, and designers of learning experiences” and no longer the “main performers” (Weimer 2002, p. xviii). In addition, she suggests that in learner-centered educating, faculty “share power so that students can make more decisions about the terms and conditions of their learning.” But, “with more freedom comes more responsibility:” in a learner-centered environment, students “see themselves as growing into ever more responsible learners” (Weimer 2002, p. xix).

This article attempts to answer the question: “What should teachers of marketing management do to maximize learning outcomes for students?” While not arguing against Weimer’s suggestions, this article assumes that what teachers can do is controlled in part by the broader context of their particular program, model of education, and philosophy of learning. Therefore, before discussing what teachers of marketing management can do to maximize learning outcomes, I will discuss the environmental context in which those outcomes operate.

THE CRITICAL LEARNING PHILOSOPHY

Outcomes, tactics, strategies, and objectives rest on a philosophical foundation. The philosophy in which I operate holds that the reason for the existence of a management program is to help our students do both “well” and “good.” In other words, we teach so that our students will be successfully engaged in the highly influential profession of business and so that our students will make positive a difference in the world. To do well and good requires certain dispositions and intellectual characteristics. While this purpose is not necessarily different from that of other institutions, how we accomplish this purpose may be quite different.

To give students the intellectual characteristics needed to do both “well” and “good,” we focus primarily on critical learning skills. Because we focus on teaching critical learning skills and a disposition toward life-long learning as opposed to focusing on business knowledge, our philosophy is different from that of major universities. For example, the Ross School of Business at the University of Michigan claims that it “delivers management education at both the undergraduate and graduate level with best-of-class training in all disciplines and functional areas” (University of Michigan 2005). It also asserts that students in all of its degree programs “receive cutting edge knowledge in every area that comprises the curriculum” and, in addition, that “elective courses for developing advanced expertise are in ample supply” (University of Michigan 2005).

In contrast, we choose not to provide students training in “all disciplines and functional areas,” nor do we choose to provide “cutting-edge” knowledge in all areas. Rather, we choose to provide excellent training in a limited number of areas, focusing more on depth of knowledge than breadth of knowledge, to foster in students the development of important skills and a love of learning.

Our philosophy is also different from that of major universities: we focus on a disposition toward doing “good” as opposed to focusing on teaching knowledge of good, such as knowledge of ethical norms, concepts, and theories. While many colleges and universities have courses, or modules within courses, on business ethics, we question whether they are effective in terms of encouraging ethical and socially responsible behavior. For instance, Sparks and Hunt (1998, p. 105) found “a significant negative relationship between ethical sensitivity and formal training in ethics.” We see dispositions, as opposed to knowledge, as a good predictor of ethical behavior (see Wolterstorff 2004, p. 59). Thus, we believe we must dispose students to act in a certain way given certain situations. This requires the ability of students to take the perspective of others both intellectually and emotionally.

We are also different from universities in terms of the number of management/business-related courses we offer. Our competitive advantage is not in offering “cut-
ting-edge” knowledge in all business-related courses; rather, it is using some cutting-edge business-related knowledge to teach critical learning skills and dispositions.

In short, we are not as concerned that students learn temporal knowledge as much as we are concerned that students have the ability to learn temporal knowledge. We strive to help our management majors “know more” even though they are taught fewer subjects, disentangle “fact from opinion and the proven from the plausible,” “meet and refute the arguments” of others, and “tackle new subjects,” “make connections” between “spheres of knowledge,” and “transfer intellectual skills” across subjects (Sayers 1947). Even though we are a management program, we strive to help our students “think clearly, communicate effectively, seek information, and adapt to change” (Purdue University 2005). But this does not make our program unique. What makes our program unique is the people we have and the way they teach.

THE SKILLS AND DISPOSITIONS MODEL

Our Critical Learning Philosophy emphasizes critical learning skills and dispositions. Therefore we have developed a Skills and Dispositions Model of Undergraduate Management Education. Following the lead of Dorothy Sayers (1947) and drawing on the advice of others (such as Kolb 1984), we maintain that in order to be successfully engaged in the highly influential profession of management, students in an undergraduate management program need to acquire skills in decision making, learning, and persuasive dialog as well as intellectual and emotional empathy.

We empathize with those who say management, in essence, is decision-making (Drucker 1954, p. 351). We believe decision-making consists of critical thinking and learning skills. To be able to think critically means that students have the ability to “identify, frame, and readdress issues” (Eyler and Giles 1999, p. 99), which requires that students’ thinking must be grounded in theory. To develop and apply theory, information is required, and therefore students need to learn how to learn so that they can continually develop. While we teach students the rudimentary “language” (business-related terms and concepts) and “logic” (theories) of business, we want students themselves to be both willing and able to further develop these “tools.” Furthermore, we want students to use these tools to better understand the perspectives of others.

In addition to learning decision-making skills, we want students to learn the skills of persuasive dialogue, or “rhetoric,” so that they can effectively “find out what other people are after,” understand them, and then be able to get their own ideas “across to other people” (Drucker 1954, p. 36). While skills in decision-making and persuasive dialog and a disposition toward learning will ensure that students will do “well,” these outcomes will not ensure that students will do “good.” To do good, students need to be disposed toward doing good. To be disposed toward doing “good” requires the cultivation of empathy (Wolterstorff 2002, p. 151).

Hoffman (1981, p. 128; see Sparks and Hunt 1998, p. 96) defines empathy as a “vicarious affective response appropriate to someone else’s situation rather than one’s own.” Stiff and others (Stiff, Dillard, Somera, Kim, and Sleight 1988; see Sparks and Hunt 1998, p. 96) refer to empathy as “the ability to assume cognitively the perspective of others.” We believe this cognitive and affective ability begins not with “book knowledge,” but with experience. Teaching for experience is one way our management program is different.

A MANAGEMENT PROGRAM

Our Critical Learning Philosophy and Skills and Dispositions Model of Management Education have led us to modify our management program. Our program is built around the “tools of learning.” The tools of learning reflect the medieval philosophy of education, consisting of two parts: the Trivium and the Quadrivium (Sayers 1947). While the Quadrivium consisted of the subjects of arithmetic, geometry, music, and astronomy, the Trivium consisted of the preparatory subjects of grammar, dialectic (logic), and rhetoric (see The Catholic Encyclopedia 2005).

Grammar, the first “subject” of the Trivium, taught students “the structure of a language, . . . how it was put together, and how it worked” (Sayers 1947). In practice, learning grammar meant learning some particular language, such as Latin (Wilson 1991, p. 92). Dialectic (logic), the second “subject” of the Trivium, taught students “how to use a language,” such as how to “define” terms and “make accurate statements; how to construct an argument and how to detect fallacies in an argument” (Sayers 1947). From this perspective, “the ‘subjects’ supply the material; but they are to be regarded as mere grist for the mental mill to work upon” (Sayers 1947). Rhetoric, the third “subject” of the Trivium, taught students how to say things “elegantly and persuasively” (Sayers 1947), and to integrate thoughts (Wilson 1991, p. 95).

If language is “simply a medium in which thought is expressed” (Sayers 1947), what is the medium through which management thought is expressed? Because management is a liberal art, students of management need to be acquainted with many “languages” (Drucker 2001, p. 13). Thus, to understand the medium through which business thought is expressed, students need to learn the grammar of various liberal arts including economics and
math as well as the grammar of accounting. Because business thought is also expressed through the language of ethics and social responsibility, the grammar of religion and/or theology is also appropriate.

If logic teaches “how to use a language,” and teaching logic depends more on pedagogy than curriculum, what pedagogical strategy will accomplish the teaching of logic? We believe in “perspectival” learning. Perspectival learning exposes students to “deep” knowledge in order to teach them the skill of critical thinking, an important foundation skill for decision-making. By “seeing phenomena from various perspectives” (VanderVeen and Smith 2005), each perspective with its own applications, theories and theoretical assumptions, students learn to “identify, frame, and redress issues” (Eyler and Giles 1999, p. 99). Not only are students then able to think critically, they are able to think logically, for each theory has its own internal theoretical logic and external theoretical application.

For instance, suppose students were faced with a decision regarding job design. To make an effective decision requires critical thinking, or seeing the decision in the context of many perspectives, each with their own assumptions. While Taylor’s Principles of Scientific Management are based on the assumption that workers do not want to work, Drucker’s Management by Objectives and Self-control is based on the assumption that managers want more freedom and responsibility. To determine the answer to the job design question, students must ask about assumptions (cf., McGregor 1960, pp. 33–58) and what these assumptions are based upon. Ultimately, students must choose assumptions consistent with their values toward work (see, for example, Hardy 1990).

Getting students to think this way follows the theoretical path of the maturing mind. Students are thought to move from “dualism” to “multiplicity” to “contextual relativism” to “commitment” (Nelson 1999). Perspectival learning is a strategy to help students go from dualism to commitment.

If rhetoric teaches students to say things “elegantly and persuasively,” what pedagogy will teach rhetoric? Sayers suggests that students be required to develop a thesis and to defend it (Sayers 1947). Drucker goes further and suggests that thesis writing and defense be a “frequent, normal, and continuing part of college work” (Drucker 1954, p. 375).

This “frequent, normal, continuing part of college work” reflects the pedagogical strategy of experiential learning. Experiential learning involves reflecting (or analyzing the results from applying theory), revising (or reformulating theories and hypotheses), and relating (or testing those hypotheses in practice). In the context of making an oral defense, students can learn theories of communication, the skill of rhetoric, and test the underlying theories of their subject matter simultaneously. The practice of experiential learning will not only hone students’ theory-building skills, it will also favorably dispose students to life-long learning. It may even have the effect of reconfiguring the brain (cf., Goleman et al. 2002, p. 152).

Experiential learning can also help students learn to take the emotional and intellectual perspective of others. For instance, a form of experiential learning is “service learning,” or experiential learning that is directed toward meeting the needs of the community. Through experiential learning opportunities such as consulting with local businesses, students can learn to see the world through the eyes of others.

**PEDAGOGICAL TACTICS**

This paper has suggested that perspectival and experiential learning are pedagogical strategies for achieving the educational outcomes of skills in decision-making and persuasive dialog and dispositions toward learning and doing “good.” To implement these pedagogical strategies in a marketing management course from a critical learning perspective requires the use of particular pedagogical tactics (see Figure 1 for a summary). Just as certain courses may or may not be appropriate for a liberal arts college given its particular faculty [“who is on the bus” (cf., Collins 2001, p. 41ff)], certain pedagogies may or may not be appropriate given the faculty and the learning environment. For instance, this paper assumes that the pedagogical tactics discussed below will be more effective if there is more academic intimacy between faculty and students and if the type of students in the program are active and curious.

To implement the pedagogical strategy of perspectival learning, I utilize case studies in a strategic marketing management text, case studies in a business ethics text, a consulting project, and a movie. Appropriate case studies allow students to “see phenomena from different perspectives.” For instance, the cases in Strategic Marketing Management (Kerin and Peterson 2004) typically have points of view from among the following: upper management, lower management, consultants, marketing people, sales people, finance people, market research people, advertising people, etc.

Although many other colleges and universities use the Kerin and Peterson text, I use it differently. For example, when considering these conflicting points of view, I ask students to consider the following questions: (1) What assumptions is Person A making? Is this assumption appropriate? (2) What theory is Person A using? Is this theory appropriate, given the assumptions? (3)
How is Person A applying this theory? Is this application appropriate?

Grounding points of view into theory should help students ask the “right questions,” because it should help students distinguish “symptoms” from “critical factors.” Critical factors are those “levers” that influence problems/opportunities. These factors, then, should be “grounded in theory” such that if this “lever” is pulled to this extent, this is what will happen. Once the appropriate critical factors are uncovered, students have the ability to analyze conflicting options and make recommendations.

Theoretically, the use of case studies in this way incorporates all levels of the “cognitive domain” in Bloom’s Taxonomy. Specifically, in doing case studies, students are asked to know marketing terminology, comprehend its meaning, apply this knowledge and meaning to a situation, analyze motives and causes, evaluate the various options given in the case, and possibly synthesize by “creatively or divergently applying prior knowledge and skills to produce a new or original whole.”

At a deeper level, the use of these case studies not only exposes students to contextual knowledge, but also utilizes it to teach the skill of critical thinking. When students see a specific case situation from various points of view, each with its own applications, theories and theoretical assumptions, students learn to identify, frame, and address critical factors. Not only are students then able to think critically, they are able to test the logic of each point of view.

In addition to implementing perspectival learning through strategic marketing management case studies, I also implement perspectival learning through small cases and exercises from a book on business ethics called Just Business (Hill 1998). Many management/business pro-
grams in Christian colleges use this text: however, I use it differently.

For instance, while using this book on ethics does give students knowledge about ethics, my primary intent is to expose students to business and marketing communication “phenomena from different perspectives.” In this instance, students are looking at case studies from different points of view that are based on certain theories of ethics which themselves are based on certain assumptions. By asking students to think about the theories and assumptions underlying the different points of view, I am attempting to teach students to distinguish “symptoms” from “problems” and therefore I am helping students become better decision-makers.

A third medium for implementing perspectival learning in a marketing management course consists of the movie *The Big Kahuna.* This movie presents students with three points of view of what it means to engage in the selling function, which correlate with different underlying assumptions about who God is. One character (Larry), believes one should use conversations about Jesus to sell industrial lubricants, while his opposite (Bob) believes one should use conversations about industrial lubricants (or dogs, or family) to make converts for Christ. The third character (Phil) is either confused or ambivalent, and says to be human (as opposed to being a marketing rep), one should just talk to people, as if one could do that without having an agenda. The movie, then, not only exposes students to three different points of view, but three different sets of assumptions about who God is and what it means to be a “marketing rep.” By exposing students to these world-and-life views, students better understand the characters in the movie and why they act the way they do.

Finally, in addition to analyzing marketing management cases, ethics-related cases, and characters in a movie, I implement perspectival learning through consulting projects under the auspices of the Institute for Student Consulting (I.S.C.). In my marketing management course, students participate in performing a “marketing audit” (Kotler, Gregor, and Rodgers 1977, pp. 25–43) for a local organization. The I.S.C. project qualifies as perspectival learning for at least one reason: students obtain and compare data from various constituents reflecting various points of view.

To implement the pedagogical strategy of experiential learning, I utilize oral and written assignments using the aforementioned case studies, the consulting project, and a reflection paper. Although many marketing management courses utilize these types of assignments, what makes my course different is the amount of oral and written communication, the explicit reflection on implicit theories of oral and written communication, and the explicit reflection on marketing theories and assumptions underlying those theories. An example of the type of questions that could be asked when writing case studies, see Figure 2.

The case studies also serve as applications of experiential learning in that as students write up successive case studies, they have the opportunity to receive feedback to

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**FIGURE 2**

Questions for Case Studies

I. Initial Situation: what initial questions need to be answered in this case? What symptoms indicate there is a problem?

II. Critical Factors (i.e., strengths and weaknesses, opportunities and threats, business definition and vision, comparative advantage, distinctive competency, success measures measures, underlying problem [in terms of marketing concepts and theory]?)

III. What might the firm do?
   a. Option #1
      i. What theoretical assumptions are being made?
      ii. Pros of Option #1
      iii. Cons of Option #1
   b. Option #2
      i. What theoretical assumptions are being made?
      ii. Pros of Option #2
      iii. Cons of Option #2
   c. Option #3
      i. What theoretical assumptions are being made?
      ii. Pros of Option #3
      iii. Cons of Option #3

IV. Recommendation: What must the firm do?
be used in future case study analyses. Students also evaluate the oral presentations of their peers, who role-play by acting as if they are presenting their recommendations to a board. Not only does allowing students to give feedback give students more control in the classroom, it also encourages them to think about theories underlying evaluation schemes.

In addition to utilizing oral and written assignments for case studies, students iteratively write a reflection paper. At the beginning of the semester, I ask students to state a theory of marketing, and then to think about how the Christian faith relates to marketing. In this way I introduce students to the concepts of theory and perspective. Then, at the end of the semester, I give students the same assignment, after they have experienced the case studies, the texts, the movie, and the project. In addition to reflecting on marketing theory, I also ask them to reflect on theories of oral and written communication that they have revisited or revised over the semester particular to being in my class.

Although I typically do not invite guest speakers to my class, I do offer students extra credit if they write a two-page summary and reaction paper to presentations by business leaders on campus. The value can be enhanced and made consistent with the experiential learning tactic when the students and I “debrief” during the next class period, discussing the inferred theories and assumptions of the speaker and comparing this to what we’ve already studied.

Both perspectival and experiential learning help instill in students a positive disposition toward learning, because seeing phenomena from different perspectives is fun for some and therefore a type of learning that is self-reinforcing. Many students also enjoy learning by doing, a type of learning that is also self-reinforcing. Furthermore, some students find learning more fun if it has a purpose, such as helping businesses or other organizations in the local community.

Perspectival and experiential learning also help students intellectually empathize with others, or see phenomena from the perspective of others intellectually. Experiential learning, especially in the case of service learning, has the additional benefit of giving students the opportunity to take other people’s perspectives emotionally. If students can feel what others are feeling, they can make decisions in a more emotionally intelligent manner (cf., Goleman et al. 2002).

CONCLUSION

The article began with the question: “What should teachers do in order to maximize learning outcomes for their students?” (Weimer 2002, p. xii). I have attempted to answer this question in the context of a marketing management course, a management program, a particular management model, and a particular learning philosophy. In showing that what teachers do is related to the context in which they work, I have suggested unique pedagogical strategies and tactics to teach skills and dispositions.

ENDNOTES

1 In terms of non-economics, non-accounting, and non-math and computer science courses, we require only two of the following four business courses: finance, human resources, operations, and marketing.

2 Our management program serves approximately 300 students. Our typical class size is about twenty-five students. We have four management faculty members with unique specialties.

3 In The Big Kahuna Larry (Kevin Spacey), Phil (Danny DeVito) and Bob (Peter Facinelli) are three Midwestern businessmen at crucial stages of their lives. (www.hollywoodjesus.com).

4 The Institute for Student Consulting allows for a teaching style midway between traditional classroom learning and student internships and facilitates student consulting projects.

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THE POWER OF BRAND IMAGE: A REFINED BRAND IMAGE MODEL IN TEAM SPORT AND ITS RELATIONSHIP WITH BRAND LOYALTY

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SUMMARY

In 2002/2003 the top divisions of the “Big Five” leagues in soccer (England, Italy, Germany, Spain, and France) generated a total income of about 7.5 billion USD. With total revenues of about 330 million USD and approximately 53 million fans worldwide Manchester United remains the “Gold Standard” of European soccer clubs. It is beyond question that the top soccer clubs have become global brands that are a source of excitement and pleasure for millions of consumers, and many of these consumers spend much of their time and money for their favorite sport and club.

Besides the success on the field the development of loyal followings in team sport is increasingly traced back to the existence of strong brands. It is thus important to make sport marketers aware of the factors that constitute a strong brand and the influence it has on fan loyalty and therefore on the economic success of the club. The objective of this study is twofold. First, it is the goal to show how strong brands are built in team sport and second, to demonstrate the relevance of brand image for customer retention.

In our attempt to develop a parsimonious model to measure brand image in the team sport industry we follow Keller’s (1993) general concept of brand image. We start off with existing operationalizations in the specific research context. The most important measurement instrument was introduced by Gladden and Funk (2001, 2002). They propose a model with 13 dimensions of brand associations that constitute brand equity in the team sport setting. A total of 40 items was used. Although Gladden and Funk receive good reliability and validity measures, this model is difficult to apply both in theoretical and practical settings.

To test our refined brand image model we carried out an empirical online-study with 1,298 fans of the major German soccer league (i.e., Bundesliga) clubs. In line with Keller’s brand image conceptualization we propose the image of a club brand to consist of both product- and non-product-related brand attributes as well as of brand benefits. The former, strictly speaking, build the core product of a team brand and consist of the team, head coach, success and team play. The non-product-related brand attributes are defined by club history and tradition, logo and club colors, fans, and stadium. The perceived benefits are many-faceted and comprise identification with the team, peer group acceptance, escape (get away from it all), socializing and companionship, emotions, nostalgia and entertainment. The most important finding is, however, that a parsimonious three factor and 15 indicator measurement model can successfully capture the construct’s content.

To test for nomological validity of our brand image measure its effect on fan loyalty was examined next. Fan loyalty was conceptualized through two constructs: attitudinal loyalty (i.e., psychological commitment) and behavioral loyalty. Psychological commitment makes up a strong and persistent attitude that captures the permanent emotional attachment of a fan to his or her favorite team. Behavioral loyalty takes shape in the fan’s stadium visits, the consumption of games on TV or other club-related media, the wearing of club colors, and the purchase of club merchandise.

The analysis of the causal relationships between the constructs showed the following results. The benefits fans obtain through the team brand are strongly affected by the brand’s product- and especially the non-product-related attributes. It shows, that Keller’s brand associations model should be extended to causalities between the constructs; for instance, there should not only be a link assumed between attributes and benefits, but also a positive effect from attributes to benefits. Furthermore, the fans’ perceived benefits from the team brand have an extremely strong influence on psychological commitment, which shows that the conceptualized benefits construct highlights the majority of relevant facets that are important in obtaining high commitment among fans. Finally, behavioral loyalty is strongly determined by commitment. Thus, it could be shown that commitment is highly effective in explaining actual behavior.

Analyses showed that the emotional attachment of fans and their pronounced loyalty propensity is the most important asset of a team sport organization. Sport clubs should put their marketing emphasis on the creation or conservation of the fans’ psychological commitment.
through well-planned interactions designed to deliver extraordinary experiences. Cross-selling-activities are promising strategies in this direction as long as the new products and services are marketed consistently (with a high fit) under the brand. References available on request.

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CONSUMERS’ RELATIONSHIPS WITH BRANDS: AN INVESTMENT MODEL APPROACH

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SUMMARY

Despite increased attention to the relationship paradigm in marketing theory and practice, there have been few attempts to understand how consumers commit to their relationships with brands. Central to any relationship is the construct of commitment. Commitment level represents the individual’s long-term orientation toward a relationship, including intent to persist and feelings of psychological attachment (Rusbult 1983). The social psychological literature on interpersonal relationships, for example, demonstrates clearly that commitment is a crucial factor for maintaining a long-term relationship.

Attempting to fill this gap in the literature, the present research used a theoretical model from social psychological research on interpersonal relationships, the Investment Model, as a basis to understand the consumer-brand relationship. The Investment Model is an extension of concepts developed in the exchange tradition within social psychology, particularly interdependence theory (Kelly 1979; Kelly and Thibaut 1978). The Investment Model posits three central predictors of commitment in any relationship: satisfaction, investments, and alternatives. Satisfaction is essentially the rewards of the relationship minus the costs; investments are links to the relationship that will be lost if the relationship ends; and alternatives are the availability of other quality relationships.

The investment model was tested on three different brands: a participant-selected brand, a product brand (Coca-Cola), and a service brand (Bell South). The present study provides strong support for investment model predictions regarding brand commitment. Indeed, the investment model appears to work well for explaining commitment to brands as well as it has performed in the past to predict commitment to interpersonal relationships. This finding indicates that when consumers have relationships with brands, they use norms of interpersonal relationships as a guide in their brand assessments. References available on request.

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EXPLORING THE IMPACT OF CORPORATE REPUTATION ON CONSUMER SATISFACTION AND LOYALTY

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SUMMARY

Recent literature deals with corporate reputation as an important intangible asset of the firm (Hall 1993; Fombrun 1996). While reputation is usually investigated in its role as a quality signal that reduces new customers’ uncertainty, its specific effects on existing customers, their attitudes, and behavior towards a firm have been rather neglected. Customers are believed to be more loyal to the products of firms with a good reputation (Morley 2002), but this notion has hardly been investigated empirically. Based on a study of consumers of an international consumer goods producer, the objectives of this paper are (1) to conceptualize corporate reputation as a trust-based construct, and (2) to measure and discuss the interplay of reputation, satisfaction, and loyalty. Precisely, we raise the research question: To what extent is loyalty of consumers influenced by perceived corporate reputation on the one hand and experience-based satisfaction on the other; we also presume that there is an influence of reputation on satisfaction.

The loyalty and satisfaction constructs have gained notable attention in marketing research leading to definitions and conceptualizations which could be used for the present study (e.g., Oliver 1997; Dick and Basu 1994). We define corporate reputation as a stakeholder’s overall evaluation of a company over time in respect of its handling of stakeholder relationships, thereby following the definition suggested by Gotsi and Wilson (2001) and Fombrun (1996). Reputation reflects the degree of trust in a firm’s ability and willingness to meet consumers’ expectations continuously, calling for a trust-based conceptualization of the construct. Perceptions of an organization’s honesty, reliability, benevolence, etc. are predictors of corporate behavior and therefore possible indicators of reputation. A novel formative measure for reputation was developed due to a lack of consensus on valid scales (Nguyen and LeBlanc 2001).

Drawing on existing scales, the literature, two focus group interviews with fellow researchers, and 40 individual, in-depths interviews with consumers, corporate reputation could be defined and potential indicators for all of the three construct measures were identified. The research project focused the reputation of an international consumer goods producer (fast-moving consumer goods such as detergents, or cosmetics). Personal, computer-aided interviews took place at consumers’ households all across Germany. After refining the sample, 762 usable questionnaires were included in the data analysis. As the model to be tested contains formative and reflective constructs, partial least squares (PLS) was used for data analysis (Diamantopoulos and Winklhofer 2001).

We found that the trust-oriented construct of reputation not only influences a consumer’s own experiences made with the products of the firm. It is also a determinant of affective and conative loyalty. Investing in reputation should therefore have positive effects on the bonding of customers although such investments usually aim at fostering the esteem the firm is held in by the general public, not at improving individual relationships. This lever to improve loyalty has hitherto been neglected and is hardly considered in loyalty management. Not only a consumer’s own experiences contribute to his/her loyalty, but also experiences communicated by others. A firm’s reputation might even compensate a consumer’s own experiences with a firm, so that short-term deviations in quality, or crises, do not lead to immediate customer defection. Reputation then not only leads to the possible acquisition of new customers but is also a stabilizing factor in already existing customer relationships.

A possible profit impact of reputation has been analyzed in a number of research projects but could not be determined to a satisfying degree (Fombrun 1996). By revealing evidence on the loyalty effect of reputation, the findings of the present study highlight the strategic importance of reputation as loyalty is considered a pre-economic performance measure and important success factor of the firm.

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THE EFFECT OF INVOLVEMENT ON AD JUDGMENT IN A COMPUTER MEDIATED ENVIRONMENT: THE MEDIATING ROLE OF PRESENCE

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SUMMARY

The impact of computers on our daily lives over the past few years has increased dramatically. For many of us interacting with a computer has become a daily experience. From shopping to correspondence to entertainment, the personal computer is fast becoming our first resource of choice. Computer Mediated Communication (CMC) activities are projected to be worth over 2.8 trillion dollars worldwide by the end of 2003 (IDC 1999) and a large portion of this consists of internet commerce and computer-based forms of entertainment.

Common to much of the study of computer-mediated communication is the idea that the participant may become psychologically immersed in the CMC event, that is, to become “present” in the experience. We believe it is in the computer’s ability to deliver a sense of presence to the consumer that makes it such a powerful tool for advertisers. The purpose of this paper is to investigate how feeling “present” affects one’s judgments of communication encountered while in a CMC event. To do so we engineered a CMC experience and asked participants about their reactions to the ads and word of mouth communication they experienced.

Understandings of Presence

There are three major CMC environmental factors that engender a sense of presence. The first factor is the environmental fidelity of the simulation, or how well the environment is represented. The second factor is the degree of interaction that the participant has with the simulated environment. The final factor that contributes to a sense of presence is the consistency of the represented display.

Presence, as a psychological construct, has been generally accepted as the sensation of “being” in an environment. we propose a concept of presence as a sense of “being” in an environment that consists of two major environmental understandings. We will call these understandings spatial ecology and spatial engagement. Spatial ecology is the understanding that an environment is a holistic unified thing, it is an acceptance of the environment and is most likely enhanced or promoted through a combination of good representation and an elimination of distracting factors that would otherwise serve to remind the participant that they are “in” an artificial place. Spatial engagement is how we interact with the spatial representation that is before us, to what extent we can move around in, manipulate and converse with the elements of the environment. As with the degree of spatial ecology the degree of spatial engagement should be consistent throughout the CMC event.

Theoretical Relationships

It is posited here that experiencing presence will lead to a greater impact of communication evaluation within a CMC experience. Also it is posited that a greater degree of involvement as experienced by the participant will lead to a more positive evaluation of persuasive communication and finally we think that one’s level of experienced presence will mediate the relationship between involvement and ad judgment.

Methodology

In order to test the preceding relationships we devised an experiment using a popular computer game. Using this game, an interactive camping scenario was created in a fictitious nature park. The game of Morrowind® (2002 Bethesda Softworks LLC, All Rights Reserved.) is a role-playing game where everything is seen from the participants perspective, as if you are looking through the camera. Overall the game portrayed a very realistic and appealing environment including a realistic three-dimensional sound field that included the sounds of insects, running water and general nature sounds. Participants were instructed to outfit a camping trip from a local store. Along the way they were exposed to billboard advertisements or equivalent word of mouth opinions (or not for the control group). After the simulation they were given a questionnaire to assess their experience.

Results

All three proposed relationships were supported for the billboard advertisements but weaker results were observed for word of mouth communication.

Discussion

The purpose of this study was to investigate the role that experiencing a sense of presence would have on one’s judgment of persuasive communication in a CMC experience. This investigation sought to explore (1) whether
experiencing a sense of presence has an affect on one’s communication judgments formed and (2) to investigate the mediating relationship of presence between user characteristics (involvement) and attitude (communication judgment). Our results indicate that the degree of experienced presence does have an effect on communication judgment. Both aspects of presence measured had significant impact on both ad and word of mouth judgment. Our results also indicate that the degree of experienced presence mediates the relationship between user characteristics, in this case involvement, and the judgments formed about the communication.

Our results indicate that the degree of experienced presence does have an effect on communication judgment. Both aspects of presence measured had significant impact on both ad and word of mouth judgment. However for advertising there appears to be a greater mediating effect of spatial ecology than engagement. This would make sense as spatial ecology is primarily a visual understanding and the advertisements displayed were primarily visual in nature as well. However a greater degree of mediation for the word of mouth condition and engagement did not materialize. This condition reported a partial mediation effect generally for interest and both aspects of presence as well as level of importance and engagement. While presence does partially mediate the relationship between involvement and communication source judgment it appears that the source of the communication is important. References available upon request

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UNDERSTANDING ADVERTISER SOURCE CREDIBILITY:
EXPLICATING CORPORATE REPUTATION,
CREDIBILITY, AND IMAGE

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SUMMARY

Background

Corporate credibility, often equated with corporate reputation and image, is the focus of many marketing communications strategies, including sponsorships and cause-related marketing efforts. A corporation’s credibility, as a message source in advertising, has been shown to play an important role in determining consumer response (Goldsmith, Lafferty, and Newell 2000; MacKenzie and Lutz 1988; Rifon et al. 2004). Despite the increasing importance of consumer perceptions of corporate credibility, the terms “image,” “reputation,” and “credibility” have been loosely equated and inconsistently defined in academic research. Additional theoretical explication, as well as empirical investigation, is warranted to further develop theories of consumer response to advertising messages.

Study Purpose

The purpose of this paper is to define and discuss the constructs of corporate image, reputation and credibility, and develop a paradigm that clarifies their relationship. The results further our understanding of how a company’s reputation relates to its credibility, and how consumers respond to sponsorships, cause-related marketing and other strategies designed to influence corporate image. We identified salient attributes for consumer global assessment of corporate reputation, using Harris Interactive’s attributes of corporate reputation. A scale for measuring corporate reputation from a consumer’s standpoint was developed and tested along with an already established scale of corporate credibility. The reputation scale was tested for its relationship to perceptions of corporate credibility to understand how a company’s reputation relates to its credibility.

Method

Based on the Harris Interactive/Wall Street Journal survey (Alsop 2003; Harris Interactive 2003), nine companies representing a range of top to bottom rankings were selected as stimuli. The data were collected through a self-administered survey of 176 undergraduate and 31 graduate students at a major Midwestern university. Subjects rated the companies using a scale of 22 attributes reflecting five dimensions expected to form a global assessment of reputation, based on the Harris Interactive Poll: products and services, workplace environment, financial performance, vision and leadership, and social responsibility; credibility items from Newell and Goldsmith (2001) were also included. To minimize subject fatigue, each undergraduate student rated two companies and graduate students rated up to 9 companies, resulting in usable data for 512 cases.

Results

The results of exploratory factor analysis suggest that the five dimensions of corporate reputation are not independent. Building on the preliminary results, confirmatory factor analysis tested a measurement model for corporate reputation with three dimensions using AMOS4. All the items or indicators significantly loaded on the corresponding factors (p < .01) as predicted, which means that the three dimensions successfully reflect a more global construct of corporate reputation. This parsimonious scale with nine items capturing the core properties of corporate reputation is expected to be readily useful for application for further studies in this area.

To examine the relationships between corporate reputation and credibility, a structural equation model with causal linkages from reputation to two credibility dimensions: trustworthiness (α = .83) and expertise (α = .81) was constructed and tested. Consistent with the expectation, the results revealed that corporate reputation, as the second-order factor, significantly and positively relates to both trustworthiness (standardized coefficient = .82, p < .001) and expertise (standardized coefficient = .77, p < .001).

Discussion

For the consumers sampled in this study, global reputation was a function of perceptions of past and present performance (tapped by product and workplace quality), future performance (measured as vision and
financial performance) and socially responsible performance. The importance of each the three dimensions to the development of global reputation is relatively equal, but socially responsible performance is somewhat less than the other two. These findings suggest that the creation of corporate social responsibility perceptions, often the goal of strategies such as cause-related marketing, the sponsorships of causes, and general corporate philanthropy, may enhance corporate credibility. In turn, this credibility should facilitate the effects of marketing communications and advertisements for brands.

Future studies of effects of cause related marketing and sponsorships should incorporate more sophisticated measures of consumer perceptions of corporate reputation and go beyond the traditional credibility measure. Reputation and credibility should be treated as different but related constructs. The further development of scales describing the dimensionality of corporation reputation and the examination of the salience of each dimension to different stakeholders warrants future work. References available on request

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INTEGRATED MARKETING COMMUNICATIONS: A TEST OF ITS EFFECTIVENESS

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ABSTRACT

This paper describes a study testing key aspects of the Integrated Marketing Communications (IMC) concept. Although hypothesized effects were not statistically significant, some directional results were observed. The study is timely and ground-breaking because it employs an experimental approach to address the debate over the validity of the IMC concept.

INTRODUCTION

The IMC field is currently the subject of a heated debate. On one hand, proponents extol the concept’s virtues in maximizing communications impact. On the other hand, doubters question the concept’s validity and point to the fact that most of the supporting evidence of IMC’s effectiveness is anecdotal in nature. This study attempted to contribute to the debate by using an experimental approach to test for possible IMC effects.

LITERATURE REVIEW

The following review of the IMC literature established a helpful basis for the study’s development.

Components of the IMC Concept

The literature suggests three components of the IMC concept. The first is the notion that all aspects of a brand’s relationship with a consumer must be considered, not just the traditional marketing communications (MC) elements of advertising and public relations (Duncan 1994; Phelps and Johnson 1996; Schultz et al. 1993; Stewart 1996). There is agreement in the literature that IMC is most effective when all aspects of the product offering are considered and coordinated.

The second component of IMC is the notion that messages should be conceptually consistent across all the MC elements noted above. This view was confirmed by a study of MC practitioners that found two of the most distinctive IMC features related directly to consistency. Specifically, respondents identified the concepts of “one voice” and “coordinated” as particularly important elements of their view of IMC (Phelps and Johnson 1996). Schultz et al. (1993) have also argued that such coordination of MC messages is becoming more important due to the complexity of consumer information processing of competing brand stimuli in today’s competitive mass communication environment. They suggest a brand message that is more consistent in its message across different MC elements (i.e., advertising, public relations, direct marketing, etc.) is likely to be processed more effectively.

The third component of IMC is the notion of an ongoing dialogue between consumers and marketers (Duncan 1994; Schultz et al. 1993). The literature suggests that IMC’s dialogue is consistent with the relationship marketing concept, an approach which has “long formed the cornerstone of many successful businesses” (Payne 1995, p. 29). The literature is rich with the description of database tools designed to strengthen a brand’s relationship with the consumer.

A Proposed IMC Model

To synthesize the IMC concept into a testable model for the study, the focus was placed on the first two components of the IMC concept discussed above. For the purposes of this study, the third dimension of the IMC concept, consumer-marketer dialogue, was not included in the test model. Future work would seek to add this third dimension, and to test for its effects.

The first dimension of the model, number of MC elements, was based on the first component of the IMC concept noted above, and was conceptualized as a continuum of the number of different elements used. The low end of the range would suggest a limited use of few MC elements. The high end of the range would be consistent with the view of Schultz et al. (1993) that IMC should include all sources of a brand’s contact with consumers. At this high end of the continuum, numerous MC elements would be employed, including direct marketing, sales promotion, web marketing, as well as advertising.

The second dimension of the model, message design integration, was based on the second component of the IMC concept described above, and is also conceptualized as a continuum. The existing literature is vague about a precise explication of the term message “integration,” with little agreement on exactly what it means for elements of an IMC portfolio to be integrated. Stewart (1996) suggests that IMC requires clarity and consistency between MC stimuli, and Duncan (1994) proposes that they have a consistent voice and look. By looking at message integration as a continuum of design consistency, a spec-
trum of conceptualizations could be accommodated, ranging from one extreme of messages which are highly consistent in terms of design (representing the repetition of the same message imagery across different MC elements) to the other extreme of diverse and inconsistent message imagery across different elements.

To visualize the interaction of these two concepts in the model, a two-dimensional diagram is proposed in Figure 1 below, with the number of MC elements represented by the vertical axis and level of message design consistency represented by the horizontal axis. A synthesis of the IMC concept derived from the literature suggests that an IMC condition could be represented by a position in the extreme upper right hand quadrant of the diagram. This representation would be characterized by the coordinated use of multiple MC elements to deliver the brand’s message, coupled with a high degree of design consistency across the elements.

How This Model May Impact Persuasion

The proposed model suggests a more important question: how does it work? The IMC literature suggests the possibility that a brand employing an IMC strategy may create a stronger image trace in consumers’ memory. The implication of this stronger trace is that it might be more easily processed than brand messages which offer bits of conflicting, or at least not highly consistent, information across different MC elements (Schultz et al. 1993). It is then possible that the superior processing potential of an IMC strategy could translate into more desirable effects, including attitudes toward the message, toward the brand, and buying intentions.

The role of images across different MC elements has been explored in the literature for imagery processing. Specifically, Lutz and Lutz (1977) found evidence supporting the imagery-enhancing effects of integrating visual and verbal stimuli. They found that memory was affected positively when the brand name, product attribute and picture were combined interactively in one stimulus. Childers and Houston (1984) found a positive relationship between advertisements integrating a picture with other visual cues and stronger imagery resulting in stronger brand recall. They believed this effect was due to the “chunking” of these stimuli at the time they are encoded by the brain. This may create more powerful imagery than is possible when each stimulus is processed by the brain individually. They concluded that the stronger memory trace caused by this “chunking” may lead to easier retrieval — and hence recall (MacInnis and Price 1987).

This memory-enhancing role of the combined stimulus of different MC elements may hold special significance for the proposed IMC model. It suggests that messages which are conceptually integrated across different MC elements might help create memory traces that are reactivated and strengthened upon exposure to subsequent exposures of different MC elements using the consistent message imagery. This reactivation of existing memory traces across multiple MC elements may have a more powerful impact than either the simple repetition of
a message by one element or by stimuli using multiple MC elements that are not visually consistent.

**Research Question**

The model proposed above, and its possible explanations, are all hypothetical. Therefore, this study sought to answer a fundamental question: does a strategy consistent with the proposed IMC model result in statistically significantly different effects than a traditional MC approach?

Hypotheses were developed to address this question. They sought to test the effects of IMC versus traditional MC efforts using some commonly accepted persuasion effectiveness measures, including attitude toward the ad \( A_{ad} \), attitude toward the act of purchasing the brand \( A_{act} \), attitude toward the advertised brand \( A_{ab} \), behavioral intentions toward the brand \( BI \), and recall of key aspects of the MC message.

The first hypothesis deals with attitudes:

**H1a:** Attitudinal measures \( A_{ad}, A_{ab}, A_{act} \) for a given brand will be more favorable in response to a set of MC stimuli which employ the IMC model than for those which employ a more traditional approach.

The second hypothesis tests for another commonly accepted measure, behavioral intentions:

**H1b:** Behavioral intentions \( BI \) toward a given brand will be more favorable in response to a set of MC stimuli which employ the IMC model than for those which employ a more traditional approach.

The third hypothesis employs another standard measure of effectiveness, message recall:

**H1c:** Aided and unaided recall of key aspects of the MC message for a given brand will be more favorable in response to a set of MC stimuli which employ the IMC model than for those which employ a more traditional approach.

**METHODOLOGY OVERVIEW**

To address the hypotheses, an experimental design was adopted using a series of three studies. The series included two pretests prior to the administration of the main study.

**Test Product Selection and Development**

Prior to the beginning of the research process, two test products were selected and developed. Fictitious brands were created due to the difficulty in securing MC materials from existing brands that would have satisfied exactly the manipulation requirements of the study, and because fictitious brands helped eliminate bias toward existing brands.

The literature on product involvement was consulted to determine appropriate types of products. Hupfer and Gardner (1971) and Laurent and Kapferer (1985) provided a useful reference, although Zaichkowsky’s (1986 1994) work provided the most practical application, with the Personal Involvement Inventory (PII). This tool measures and compares consumer involvement levels for different classes of products. Applying Zaichkowsky’s PII to the present study, test products representing average involvement levels were selected: facial tissues and pain relievers.

Next, fictitious brand names were created for each of these test products using a qualitative exploration with two requirements. First, the brand names must be appropriate for the type of product featured and offer a positive connotation, and second, they must be unique and not currently used by existing brands. Two brand names were generated that met these requirements: “Softies” facial tissue, and “Relief-24” pain reliever.

Finally, a professional graphics artist developed a brand, logo, packages, and MC stimuli for each test brand. The requirements for this process matched those of the name generation procedure.

**Design Consistency Pretest**

This pretest was designed to determine if the stimulus materials accomplished the goal of creating two different message design consistency conditions (high versus low consistency).

The pretest employed a 2 (message design consistency) x 2 (product) factorial design with design consistency as a within-subjects variable and product as a between-subjects variable. Two sets of stimulus materials were exposed to subjects, who were then asked to evaluate the materials. Subjects were either shown two sets of pain reliever materials or two sets of facial tissue materials. Two questionnaire instruments were employed to measure subject evaluations. The approach was consistent with the pretest methodology used by Goldberg and Gorn (1987) to select television commercials with different levels of emotional appeal.

To collect measures, a perceived design consistency scale was developed. Each of the three items in the scale employed seven-point bipolar semantic differential scales. The first item asked for subjects’ perceptions of the “visual appearance of the materials.” It was anchored by the statements: “very inconsistent/very consistent.” The
second item asked for perceptions of the “messages contained in the materials” and was anchored by the same statements. The third item asked for perceptions about the “overall tone and personality portrayed by the materials” and was again anchored by the same bipolar statements.

Forty-nine subjects were recruited for this study from among the population of undergraduate students at a small university. This sample was consistent with the size of the Goldberg and Gorn (1987) commercial pretest noted earlier.

Half of the subjects were exposed to the materials for the Softies brand and half were exposed to the material for Relief-24. The stimulus material presentation order was identical: each group was exposed to the low design consistency set of materials first, followed by the administration of the first questionnaire to measure their evaluations of the materials.

The results indicated a statistically significant main effect for design consistency, with the mean design consistency score for the high design consistency materials (M = 6.08, SD = .744) significantly greater than the mean design consistency score for the low design consistency materials (M = 4.54, SD = 1.69), F (1, 47) = 36.2, p < .001. This pretest confirmed that subjects did indeed perceive that the stimulus materials in the high design consistency conditions were more consistent in visual appearance and those in the low design integration conditions.

Affect Pretest

This pretest was designed to ensure that affect levels were balanced in each of two design consistency conditions. This was required to ensure that materials for the high consistency conditions did not benefit from higher affect scores than those in the low consistency conditions.

The pretest employed a within-subjects experimental approach. All subjects were exposed to a series of 16 different pieces of MC stimulus materials. A series of 16 questionnaires were administered to subjects, one after the exposure of each piece of stimulus material. Each questionnaire was identical and employed three scales.

The first scale was designed to measure $A_{st}$, using one employed by Hastak and Olson (1989) in a study of consumer cognitive structures. The second scale was adapted from one used by Kamp and MacInnis (1995) in their study of the emotions portrayed in television commercials. The third scale was also adapted from the work of Kamp and MacInnis (1995) and was designed to measure “overall impressions of the ad.” It featured three semantic differential items. The first asked for subjects’ “reactions to this ad,” and provided a seven-point evalu-...
The design consistency operationalization was based on a manipulation of graphic design elements. For example, in the low design consistency condition, the magazine ad featured the same exact copy points, but with visuals which were not as consistent with the brand package and the other accompanying stimuli as those materials in the high design consistency condition.

Five dependent variables were measured in this study: \( A_a \); \( A_b \); \( A_c \); \( BI \); and unaided recall of key aspects of the stimulus materials. As noted earlier, these variables were measured using the repeated measures of the first and second questionnaire instruments. \( A_a \) was operationalized by a technique used by Hastak and Olson (1989). Four semantic differential items were included on the questionnaire instrument. The coefficient alpha for this scale was .90 for the first questionnaire and .92 for the second questionnaire, averaging .91. \( A_b \) was operationalized in a manner consistent with a technique used by Batra and Stayman (1990) employing ten semantic differential questionnaire items. The coefficient alpha was .94 for the first questionnaire and .94 for the second questionnaire, averaging .94. \( A_c \) was operationalized using the same three semantic-differential questionnaire items employed by Mitchell (1986). The coefficient alpha for this scale was .91 for the first questionnaire and .91 for the second questionnaire, averaging .91. \( BI \) was operationalized in a manner consistent with the technique employed by Olson et al. (1982). A single five-point Likert-type questionnaire item was employed, anchored by the expressions “not likely at all” and “very likely.” Unaided recall was operationalized via responses to three open-ended questionnaire items. The first item measured recall of the brand name on a scale of 1 = completely incorrect; 2 = partially correct; 3 = completely correct. The second item measured recall of the main message theme on a similar scale, expanded to 5 points. Responses for these items were coded independently by two judges, with agreement on 515 of 576 coding decisions, yielding an inter-coder reliability rating of 89.4 percent. All differences were resolved by mutual agreement of the two judges. The third recall item, number of stimulus pieces, was simply recorded and analyzed.

Two manipulation checks were also incorporated into the questionnaire instruments. The first was designed to measure the involvement level of the test brands as perceived by the subjects to ensure that the selection of a pain reliever and facial tissue represented products of relatively average – and equal – involvement level. The second was designed to measure the perceived message design consistency of the high versus low consistency stimulus materials.

Involvement was operationalized through the use of Zaichkowsky’s (1994) PII described earlier. The coefficient alpha for this scale was .88 for the first questionnaire and .91 for the second questionnaire, averaging .90.

Perceived design consistency was operationalized using two scales. First, the design consistency scale used as one of the primary measures in the first pretest was employed again in this study. The coefficient alpha for this scale was .88 for the first questionnaire and .85 for the second questionnaire, averaging .87.

A sample of 144 subjects was recruited for this study from among the population of undergraduate students at a small American university.

In the first step of the process, subjects were exposed to the test brand package for either Softies or Relief-24 as well as to the first set of MC stimulus materials, balanced in presentation exposure to control for order effects. Following the exposure of the first set of stimuli, the first questionnaire instrument was administered, designed to measure the attitudinal and behavioral effects of the exposure to first set of test stimuli.

In the second step, subjects were exposed to the second test brand package and the second set of MC stimulus materials, again balanced for presentation order,
followed by the administration of the second questionnaire instrument. This questionnaire was similar to the first instrument noted above, except that it also included items designed to measure subject recall of the brand name, main theme, and number of MC elements presented.

Results of the first manipulation check indicated that there was no statistically significant difference between involvement scores for the Softies test brand ($M = 4.30$, $SD = 1.03$) and the Relief-24 test brand ($M = 4.42$, $SD = .910$), $F(1, 142) = .000$, $p = .983$.

Results of the second manipulation check indicated that there was no statistically significant difference between the mean design consistency score for the high design consistency materials ($M = 5.48$, $SD = 1.59$) and the mean design consistency score for the low design consistency materials ($M = 5.50$, $SD = 1.27$), $F(1, 142) = .023$, $p = .880$.

For the $A_{ad}$ measure, analyses were conducted using a $2 \times 2 \times 2$ (high versus low design consistency – within subjects) x (high versus low number of MC elements – between subjects) x (pain reliever product versus facial tissue product – within subjects) repeated measures analysis of variance. The analyses revealed no main effects for design consistency, ($F(1, 142) = .758$, $p = .464$) or number of MC elements ($F(1, 142) = .306$, $p = .581$). However, an interaction effect between the high design consistency and high number of MC elements variables was found to be approaching significance. Specifically, the mean $A_{ad}$ score for the high design consistency/high number of MC elements condition ($M = 4.81$, $SD = 1.45$) was higher than for the other three primary conditions, $F(1, 142) = 2.76$, $p = .099$ (see Table 2 below).

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<tr>
<th>Condition</th>
<th>M</th>
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<tr>
<td>High Design/High Number of MC</td>
<td>4.81</td>
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<td>Elements</td>
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<td>High Design/Low Number of MC</td>
<td>4.39</td>
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<td>Elements</td>
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<tr>
<td>Low Design/High Number of MC</td>
<td>4.38</td>
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<tr>
<td>Low Design/Low Number of MC</td>
<td>4.55</td>
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Similar results were found for the analysis of the $A_{act}$ measure, employing the same procedure. No main effects were found for either of the two independent variables, design consistency, ($F(1, 142) = .538$, $p = .464$) or number of MC elements ($F(1, 142) = .306$, $p = .581$). However, an interaction effect between the high design consistency and high number of MC elements variables was found to be approaching significance. Specifically, the mean $BI$ score for the high design consistency/high number of MC elements condition ($M = 4.81$, $SD = 1.45$) was higher than for the other three primary conditions, although not statistically significant at $F(1, 142) = 2.76$, $p = .099$ (see Table 2 below).
Despite these results, H1b was not supported since the mean BI score in the high Number of MC elements/high message interaction condition was not statistically significantly higher than the mean BI score for any of the other three experimental conditions. In addition, no statistically significant main effect (F(1, 142) = .538, p = .464) was found between the mean BI scores for the two products, facial tissue (M = 4.60, SD = 1.36) and pain reliever (M = 4.47, SD = .143).

The final dependent measure group, recall, also produced mixed results. Specifically, the same procedure as noted above yielded no statistically significant main effect (in fact, exactly equal means) for design consistency, (F(1, 142) = .000, p = 1.00) or number of MC elements (F(1, 142) = .065, p = .800). Results also indicated no interaction effects for the difference between the mean correct brand recall score for the high design consistency/high number of MC elements condition (M = 1.13, SD = .333) and the mean correct recall scores for the other three primary conditions, F(1, 142) = .025, p = .874. No statistically significant main effect (F(1, 142) = .858, p = .356) was found for brand name recall scores between the two products, the facial tissue (M = 2.76, SD = .044), and the pain reliever (M = 2.82, SD = .037). The interaction effect between products and number of MC elements for the brand name recall scores was also not statistically significant (F(1, 142) = .054, p = .817). The second measure, recall of the main theme of the MC messages, exhibited similar, nonsignificant main effect results for design consistency, (F(1, 142) = .821, p = .366). However, a statistically significant main effect for number of MC elements was found, with the mean theme recall score in the high number of MC elements condition (M = 4.32, SD = .086) greater than the score in the low number of MC elements condition (M = 3.40, SD = .086), (F(1, 142) = 7.46, p = .007). No interaction effect between the high design consistency and high number of MC elements conditions was found. Specifically, the mean correct theme recall score (M = 4.32, SD = .917) was not significantly different than the mean correct theme recall scores for the other three primary conditions, F(1, 142) = .015, p = .902. No statistically significant main effect was found for theme recall scores between the two products (F(1, 142) = 2.04, p = .156), the facial tissue (M = 4.23, SD = .080) and the pain reliever (M = 4.08, SD = .082). The interaction effect between products and number of MC elements for the brand name recall scores was also not statistically significant (F(1, 142) = .151, p = .698).

Results for the final measure, recall of the number of stimulus pieces used in the experiment, were mixed. No statistically significant main effect was found for design consistency, (F(1, 142) = .732, p = .394). However a statistically significant main effect was found for the number of MC elements, with the mean number of stimulus pieces recalled for the high number of MC elements condition (M = 4.72, SD = .209) greater than the mean for the number of pieces recalled in the low number of MC elements condition (M = 2.80, SD = .209) (F(1, 142) = 42.38, p = .000). The interaction between the high design consistency and high number of MC elements conditions was not statistically significant, with the mean correct number of pieces score for the high design consistency/high number of MC elements condition (M = 5.00, SD = .231) not significantly greater than the mean correct number of pieces recall score for the other three primary conditions, F(1, 142) = 1.10, p = .296. No statistically significant main (F(1, 142) = 1.80, p = .181) or interaction (F(1, 142) = 1.11, p = .294) effects were found for the number of stimulus pieces recall scores between the two products, facial tissue (M = 3.95, SD = .286) and pain reliever (M = 3.56, SD = .057). These recall test results indicate that H1c was not supported.

**DISCUSSION**

The results described above represent a disappointment to the advocates of IMC. They failed to demonstrate the proposed IMC model’s hypothesized effects. A discussion of two critical areas might help to explain the findings, as well as to suggest future research work. The first is a discussion of possible theoretical explanations; the second is an investigation of possible methodological flaws.

**Possible Theoretical Explanations and Implications**

One possible theoretical explanation comes from the Heuristic-Systematic Model. Ironically, if IMC mediates cognitive processing as the proposed model suggests, it may also promote one of the HSM’s two hypothesized routes to persuasion: heuristic processing. As Eagly and Chaiken (1993) suggest, heuristic processing occurs when an individual either lacks the opportunity or the motivation to carefully consider a message. The HSM explains this lack of motivation as a common human tendency to expend the least effort necessary to process a message. As a result, consumers tend to process heuristic messages in a more cursory way, using the types of mental shortcuts implied by the term heuristic. Unfortunately, the HSM also suggests that this type cursory processing results in more limited cognitive processing or elaboration (borrowing from Petty and Cacioppo 1986). This lower level of elaboration, in turn, leads to persuasion which tends to be more fleeting and less resistant to counterarguments than messages which are processed more intensively. Could it be that an IMC strategy, relying on its repetition of “one voice, one look” messages, encourages a more heuristic level of processing? This outcome would suggest that IMC’s hypothesized benefits might be counteracted, if not negated entirely, by the type of heuristic processing it would promote.
The possibility of heuristic processing of IMC messages suggests an opportunity for future research to employ some HSM research techniques to determine whether or not IMC stimulus materials are processed any differently than traditional materials. These techniques could include the type of experimental manipulations of stimulus materials similar to those used by Jain and Maheswaran (2000). They exposed subjects to information about a brand featuring the types of cues which would tend to encourage heuristic processing (i.e., an attractive source), versus exposure to information designed to encourage more systematic processing (i.e., objective ratings of a brand). Other types of manipulations used by Kalyanaraman and Oliver (2001) might also be considered. They manipulated three variables, including endorser credibility, animation (for web site stimuli) and messages of different argument strength.

Another possible theoretical explanation comes from the literature on consumer “variety-seeking.” This notion suggests that consumers sometimes choose variety in their behavior – even when this is a departure from familiar and positive past behaviors (Kahn 1998). Three of the most common explanations for variety-seeking behavior are the cognitive need for stimulation, a natural desire for curiosity, or the suggestion that consumers may simply reach a threshold of exposure to a stimulus. Beyond this threshold of exposure, consumers may become satiated and more open to considering alternative stimuli (Ratner, Kahn, and Kahneman 1999). Variety-seeking theory would therefore seem to run counter to the “one voice, one look” consistency of messages advocated by the IMC concept – and suggest that IMC might accelerate the process of reaching the threshold of exposure noted above – therefore prompting consumers to seek variety in the visual appearance of MC stimuli. As a result, IMC’s hypothesized benefits might be moderated.

These variety-seeking behaviors suggest an opportunity to adapt the methodology used by Ratner et al. (1999) to test consumer reactions to repeated tracks of music. They varied exposure of repeated segments of songs that subjects rated positively versus negatively utilizing computer program to record subject reactions. Perhaps this methodology could be adapted for use in testing groups of messages employing an IMC strategy versus messages employing a more traditional strategy. Such an approach could help to address the possibility, noted earlier, that the repetition of messages employing an IMC strategy may accelerate subject satiation and therefore help promote variety-seeking behavior.

These possible explanations and implications are very plausible. However, they do not account for the main study results indicating some degree of the hypothesized effects, specifically, the directionally higher means for behavioral intentions. This suggests that the proposed IMC model may have theoretical validity, but that this study’s methodology may have been flawed.

Possible Methodology Flaws and Implications

One possible methodological flaw could have been the selection of two products from a single involvement level. The problem may not lie in the choice of facial tissues and pain relievers, but in the selection of only average involvement products rather than a mix of products of high, average and low involvement. Could it be that IMC effects might be moderated for average involvement products since these products tend to stimulate neither high nor low levels of cognitive processing? Would the inclusion of products with different involvement levels have elicited different effects, not only for the IMC condition, but for the other conditions as well? Would the inclusion of a high involvement product encourage more central processing?

This learning suggests that future research should consider the use of test products from multiple involvement levels. Such a variation in involvement might be more effective than this project in eliciting the hypothesized IMC effects.

Another flaw could be related to the design of the stimulus materials. First, the Affect Pretest was designed to ensure that each piece of stimulus material in the high design integration conditions was liked no more than its corresponding piece in the low design consistency conditions. The results confirmed that this desired outcome occurred. In fact, in two of the eight cases, the affect scores for the high design consistency condition pieces were significantly lower than their low design consistency counterparts. Did these lower affect scores handicap the high design consistency conditions? If so, this may have suppressed the dependent variable measures for the IMC condition. Second, even though the Design Consistency Pretest indicated that there was a significant perceived difference between the two conditions, the design consistency manipulation check of the main study failed to mirror this result. This weakness in the desired manipulation could have also moderated the hypothesized effects.

This learning suggests that, in future research, test materials should be pretested and revised, where necessary, to achieve a goal of equal affect levels between conditions. Where differences are found, a graphic designer should use the input from newly added open-ended questionnaire items as diagnostic information to revise the materials to achieve the desired balance of affect. This input might also help design stimulus materials that achieve a stronger manipulation of design consistency differences that hold up in the pretest as well as the main study.
CONCLUSION

The objective of this project was to begin a tradition of experimental research in the IMC field, and to provide some empirical evidence to support the proposed IMC model’s hypothesized effects. The study failed to find this “holy grail” of evidence supporting IMC, although it did yield some directional results supporting a portion of the model.

This project did succeed, however, in one key respect. It provided a foundation for the study of IMC effects in future research. No longer can it be said that the field is devoid of experimental research. There is now a base from which to build. Many of the measures used in the project can be employed in the future to continue the quest toward a definitive answer to the IMC debate.

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CROSS-CULTURAL RESEARCH: A COMPARATIVE ANALYSIS IN THE U.S.

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SUMMARY

According to the 2000 Census, the two main subcultures within the United States are the Asian and Hispanic populations, with both experiencing dynamic growth in the past decade. During this time, marketers have overcome the language barrier to address these groups, but still claim to have no tangible theory to help them better understand and reach these markets. This is partly due to the fact that most cross-cultural behavioral research has an inter-country focus, studying cultures outside of the United States, rather than an intra-country focus, studying subcultures within the United States (Burton 2002; Ogden et al. 2004). Although these populations have been the subject of scholarly research, there has been a trend towards hypothesis testing rather than theory development, and the research is not addressing the reality of the American consumer market (Ogden et al. 2004).

To examine and compare content and growth of cross-cultural consumer behavior as a topic of research in the U.S., a content analysis of the published articles on cross-cultural consumer behavior research for the period 1990 to 2003 was performed. Baumgartner and Pieters’ 2003 rankings of consumer behavior journals was used to select six journals: three top-tier journals (Journal of Consumer Research [JCR] – ranked 1st, Journal of Marketing Research [JMR]-ranked 2nd, Journal of Marketing [JM]-ranked 3rd) and three lower-tier journals (Psychology and Marketing [PM]-ranked 17th, Journal of Consumer Psychology [JCP]-ranked 21st, and Journal of Consumer Marketing [JCM]-ranked 27th). These journals were selected to establish a benchmark of comparison, and to evaluate their current treatment of cross-cultural consumer behavior research. To accomplish the content analysis ABI/Inform and journal subject indexes were consulted and all titles in each journal were read. A total of 76 articles were identified as cross-cultural consumer behavior research articles.

Results and Discussion

Cross-cultural consumer behavior research articles amounted to 2.6 percent of all articles published during the past 13 years among the evaluated journals. Lower-tier journals accounted for 59 percent, while top-tier journals accounted for 41 percent of the published cross-cultural consumer behavior articles. The three main topics researched over the past 13 years, accounting for almost 50 percent of the total, were reference groups/family influence, methodology application and personality. Attitudes and learning followed in terms of articles published. Only 7 percent dealt with methodology issues on cross-cultural populations, and one article in a lower-tier journal pursued theory development.

The fact that students are used in 50 percent of the research being done presents a major problem for the generalization of findings across the studied populations; using students for samples ignores the intra-cultural variability that exists in socio economic status and education levels. Student samples present the problem of belonging to a specific age group, being mainly bilinguals and having different levels of acculturation than the rest of their subculture population. Additionally, student samples have always been suspect in making generalization of findings questionable.

Cross-cultural consumer behavior research evaluated for this study also shows a heavy trend of inter-country, not intra-country, cross-cultural research and a strong tendency towards an etic (differences among cultures) perspective rather than emic (deeper study of one culture). Most of the samples in these studies do not reflect the micro cultures of the subculture being studied. This inter-country etic approach, neglects to focus on the subcultures within the United States. Such studies cannot account for how acculturation, the immigration experience and exposure to an opposing culture (collectivist versus individualist) will affect or change the consumer. Although intra-cultural research is being solicited (Ogden et al. 2004), only two of the studies concentrated on differences among the Asian micro cultures.

After evaluating topic classifications the most alarming finding is the lack of an underlying theory or integrative research. Researchers concentrate on attempting to bring forth evidence in support of their hypotheses, but there is no cumulative knowledge being developed and hence less being disseminated. In this study we evaluated three articles that looked at problems of applicability of research methods in the cross-cultural arena (measurement invariance, use of reverse-worded items and the influence of the ethnicity of the interviewer on the respondent). Our discipline needs more research like this, as well as more studies that can test the validity and reliability of
current methodology on cross cultural populations perhaps by contrasting and comparing findings using different methodologies. Both types of journals appear to give equal importance to research that concentrates on evaluating the applicability of current research methodologies on cross-cultural populations.

The results of this analysis provide editors, regardless of tier, with evidence that cross-cultural topics are not receiving an appropriate amount of attention. This analysis has attempted to provide researchers and practitioners with a view of the current trends and the gaps in cross-cultural consumer behavior research. It is up to current and future researchers to debate what direction cross-cultural research should take to further our knowledge and understanding of cross-cultural consumer behavior providing industry with the means to better service these markets. A good opportunity for editors and reviewers to encourage work in this neglected area would be a call for cross-cultural papers and publish a special issue. References available upon request.

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LANGUAGE CODESWITCHING AND ADVERTISING: THE OVERLOOKED COMMUNICATION ALTERNATIVE

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SUMMARY

Most research that deals with ethnic language in advertising only compares the effects of using one language versus another, or may examine the traditional form of bilingual advertising (presenting one message in both target languages in its entirety). Codeswitching (CS) in advertising has received little attention by marketing academics (outside of the recent and forthcoming works of Luna and Peracchio 2005). According to Scotton (1988), CS is “the use of any two or more linguistic varieties in the same conversation, whether they are different languages, styles, or dialects” (p. 201). For example, a bilingual individual may begin speaking in one language and then switch to another within the same sentence or between sentences.

In many multilingual societies, CS represents more accurately how individuals actually communicate (Heller 1998). However, what is relatively unknown is how advertisers can strategically use CS as an effective communication tool. Thus, the purpose of this paper is to examine how CS may be used to influence message recall and perceptions of advertiser cultural sensitivity, as compared to monolingual advertising. To examine these questions more specifically, Hispanic-Americans will be the population of interest in this paper. Spanish/English CS has been found in most Hispanic communities in the United States (Myers-Scotton 1993). Further, understanding of these consumers is of increasing importance to marketers due to their high numbers, total spending power and tremendous projected growth rates.

Message Recall

CS can be a tool to enhance recall and assist message receivers with message decoding. It has been shown that CS has the ability to make specific information more salient (Heller 1988), signal a change in discourse modes and to cue a conversational topic change to message decoders (Becker 1997). Specifically, the language alternated to should stand apart from the original language used in communication. Linguists refer to the primary language used in conversation as the “matrix” language. The language switched to – which may be seen as non-dominant in terms of the conversation – is termed the “embedded” language.

Further, using CS in advertising may be considered a schema-incongruent message delivery technique, as most advertising to Hispanics uses monolingual advertising (English or Spanish, not both). Cues that make an advertisement more unusual are more likely to receive attention (Dimofte, Forehand, and Deshpande 2003). For example, when an advertising schema is used that is atypical (or schema-incongruent), more extensive ad processing results (Goodstein 1993). More extensive processing has been linked to higher recall and claim recognition (Goodstein 1993). Thus, elements of the embedded language are made more salient to message receivers as well as appear schema-incongruent, which both lead to increased message recall.

P1: Among bilingual Hispanic-Americans, CS leads to higher recall of elements in the embedded language as compared to equivalent elements in monolingual advertising.

Salience can also serve to hinder recall of non-salient alternatives. Alba and Chattopadhyay (1985) demonstrated that when consumers were provided with a subset of brands from a product category, recall of brands that were not included in the set was hindered. They conclude that it is difficult for an individual to suppress recall of information that is made salient during memory search. Therefore, as salience may inhibit recall of non-salient brands, this same effect may be observed among message recall elements. That is, message elements that are made salient (such as through CS) should cause inhibition of the other message elements that have not been made salient.

P2: Among bilinguals, recall of non-salient message elements in codeswitched advertising will be lower than equivalent elements in monolingual advertising.

Advertiser Cultural Sensitivity

Codeswitching can be used by bilinguals to increase or reduce the social distance between conversation participants (Heller 1998). For example, a reduction in social distance may occur when two people do not share the same native language. One party will switch to the language the other party understands best. An increase in perceived social distance may occur when two bilinguals switch to a second language that a third monolingual participant does not understand. This prevents the monolingual from participating in the exchange, as he is now excluded from the conversation.
A perceived attempt at an increase or decrease in social distance on the part of the advertiser by the viewer should influence perceptions of advertiser cultural sensitivity. Thus, the language ability of the individual being communicated to and direction of CS (see Luna and Peracchio 2005) within an advertisement should influence this perception. Specifically, among Spanish-speaking monolinguals, switching from English to Spanish should result in a greater perception of advertiser cultural sensitivity as compared to a codeswitch from Spanish to English.

P3: Spanish-speaking monolinguals will perceive the advertiser that switches from English to Spanish as more culturally sensitive than the advertiser that switches from Spanish to English.

Direction of CS should not influence this perception among bilinguals, as they are able to process information in both languages. However, CS in general should be perceived as more culturally sensitive than monolingual advertising, as CS recognizes and activates the dual identities associated with knowing both Spanish and English and represents how many Hispanic-American bilinguals actually communicate (Espinosa 1911; Poplack 1988; Myers-Scotton 1993).

P4: Bilingual Hispanic-Americans will perceive the advertiser that employs codeswitching as more culturally sensitive than the advertiser that uses monolingual (Spanish- or English-only) advertising.

In conclusion, the primary challenge for advertisers considering CS is knowing how and when this may be an appropriate communication vehicle to reach the targeted population. For example, attitudes toward CS, the community-level of bilingual language ability and the general stigmas that speakers associate with differing languages should be taken into account when considering CS as a possible communication alternative. Thus, this area remains ripe for future theoretical development and empirical investigation. References available upon request.
SUMMARY

In the international context, brand name should enable associations shared by most consumers across countries and, moreover, should enhance similar and positive reactions towards the brand. Addressing wants and needs worldwide, brand manufacturers intend to gain brand equity and long-term profitability. Operating in different country markets with different languages and cultures, the brand name should enhance an international appeal no matter where the brand originated from. In order to create strong brand image across several national markets, much attention has been paid to brand name standardization. Indeed, the scope of standardization versus adaptation of brand names has been widely studied. Examples like the case of Toyota (“Toyota MR2” meaning “manure” in French) or Chevrolet (“Chevy Nova” meaning “no go” in Spanish) have made history in marketing research and education. However, most studies analyze brand name standardization within linguistically similar contexts.

Regarding Asian markets like China, Western companies are confronted with a different language system. In the Western hemisphere, most languages base on characters that represent sound units and therefore give a clue how to pronounce or to write a word. Because of pronunciation, the meaning of a word is accessible. In logographic systems, characters do not reflect sound units. Conversely, writing and pronunciation fall apart. For example, the meaning of a name does not follow its sound units, but a combination of certain symbols. Moreover, names for persons or objects are selected very carefully because they always bear symbolic meanings. Especially in China, the symbolic meaning of brands is highly relevant because Chinese interpret brand names in terms of their social and cultural norms.

Thus, translation of brand names from alphabetic to logographic systems and the other way around are very complex challenges. Particularly, transmitting alphabetic brand names in a logographic language system could lead to wrong connotations and, hence, impact brand equity. Interestingly enough, only few studies deal with brand standardization in heterogeneous linguistic spheres. The objective of this paper is therefore to investigate how brand names which originally consist of alphabetic letters are perceived by Chinese customers. Furthermore, the study analyzes whether different methods of translation of brand names have an impact on perception of brands and brand sympathy.

Therefore, the paper argues that brand names are essential for brand recall and recognition. When perceiving a brand name, consumers link it with associations in their minds. In consequence, a brand name is affecting their reaction to the brand, i.e., purchase intention, or patronage of the brand. So, brand name standardization may cause negative associations and diminish brand associations and, therefore, brand equity. So, in order to maximize international brand success as well as success in the Chinese market, translation of brand names is recommended.

From theoretical point of view, there are three alternatives to translate brand names in Chinese language system: phonetic, semantic, or phonosemantic translation. The phonetic approach is also defined as transliteration due to the fact that maintaining the brand name a phonetic equivalent is used. The pronunciation of the brand name according to the phonetic structure of the logographic language should be very close to the pronunciation of the original brand name.

However, very often, the phonetic approach does not result in an appropriate translation because the Chinese term may not reflect a specific meaning and, therefore, does not support brand associations. Alternatively, brand names can be translated seeking for semantic equivalents. The idea behind is to attach the Chinese name not only with sense-making functional equivalents, but with core associations and values, which were inherited by the original brand. The challenge is to find Chinese characters that reflect the brand meaning and, additionally, give a close phonetic representation of the original brand enhancing strong and positive brand meaning.
Based on the above discussion, the paper argues that an appropriate translation of car brands is vital for enhancing strong and unique brand associations for Chinese customers. It is stated that an appropriate translation means to find semantic rather than only phonetic terms. Particularly, the paper postulates that semantic or phonosemantic translations more efficiently strengthen benefit associations with a brand. Finally, it is assumed that appropriate Chinese translations of brand names have a positive impact on brand commitment reflected in sympathy, desirability, and willingness-to-recommend.

The paper therefore employs an experimental study investigating the evaluation of international car brands in the Chinese market depending on translation of their brand names. Regarding empirical results, the paper proposes two central findings that may limit opportunities of brand name standardization in the Chinese market. First, brands with a semantic equivalent in the Chinese market could gain more positive evaluations and a higher brand commitment than brands with “only” phonetic transliteration. Obviously, concerning the high relevance of symbolic meanings within the Chinese language, semantic translation offers the chance to more intensively communicate a brand name and, therefore, to offer more emotional links to the consumer’s mind.

Second, one has to distinguish between luxury and middle class segment. In the middle class segment, differences between brands became more salient. International premium brands with a high awareness and more similar expectations among their target groups may rather apply a phonetic translation preserving the sound of the original brand name. Brands with lower awareness and favorability may be forced to localize their brand names choosing a semantic or phonosemantic translation. References available upon request.
MARKET STRUCTURE DETERMINATION BY ANALYSIS OF ELASTICITY MATRIX

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SUMMARY

Competitive pattern among brands in the market translate into different market shares and price sensitivities. Generally speaking, some brands compete strongly with each other because they are close substitutes, and for such closely competing brands, any change in the marketing mix of one brand will have a substantial sales effect on its competitors. For brands that are not substitutes, there may not be any such effects. Such effects are usually measured by cross elasticities with respect to a particular marketing mix variable such as price. The pattern of cross elasticities among brands provides information on the market structure. As an example, one such pattern exists when consumers switch to a competitor brand (which increases its share) for a given percentage increase in the focal brand’s price, but not to the same extent vice-versa. When this happens there is asymmetric competition between these two brands in the market. Knowledge of cross competitive effects is immensely useful for marketers as well as for retailers, because it helps to decide when to promote a particular brand, and if it is promoted, to know how this might affect the sales of other brands. Understanding this competitive pattern or market structure is the main purpose of this research.

Because cross elasticities based on marketing mix variables subsume all market structure information, if there were a way to deduce from the pattern of cross elasticities a method to group together brands belonging to a sub-market, it would provide a valuable tool for marketing decisions. Many techniques for constructing market structures are discussed in the literature. Market structure identification procedures are discussed, for instance, by Allenby (1989), and Russell (1992). Almost all these procedures are model based, and therefore restrictive in their generalizability. In this paper we develop a simple descriptive procedure to identify market structure, which we believe improves on the theory based market structure identification procedures found in the literature.

Many factors cloud the interpretation of the pattern of elasticity matrix values. Differing market shares, and asymmetric competition among brands all influence observed elasticity values. Two brands may belong to the same sub-market, but may have different market shares; and because elasticity computations involve market share values, the observed cross elasticities values between these two brands may be unequal. On the other hand, even if cross elasticity values are identical between two brands with equal market shares, asymmetric competition, if present, may imply that these two brands indeed belong to different sub-markets. Such factors make the task of correctly grouping brands into their sub-markets somewhat complicated.

In this paper, we first develop a general relationship of cross elasticity values between brands. \( \beta_{ij} = \frac{(\Delta m_i/m_i) / (\Delta p_i/p_j)}{\Delta p_j/p_k} \) denotes the cross price elasticity of brand \( k \) on brand \( I \), where \( m \) is the market share of brand \( I \), and \( p \) the price of brand \( k \). We show that in general, and without any model based assumptions, the cross effect of brand \( k \) in sub-market \( B \) on brand \( I \) in sub-market \( A \) will be different from the effect of another brand \( I \) from sub-market \( B \), and will satisfy the identity: \( \beta_{ki} / \beta_{ij} = (m_i/m_k) \). However, it is also an empirical fact that brands exhibit asymmetric cross elasticities, especially if they belong to different sub-markets even when their market shares are equal. To account for this fact, the proportionality effect of market share should be scaled by another brand specific factor, \( c \). Therefore, the most general relationship describing the effect of brands \( k \) and \( I \) from sub-market \( B \) on brand \( I \) from \( A \) is: \( \beta_{ki} / \beta_{ij} = (m_i c_k / m_k c_j) \).

Based on the above discussion of elasticity relationships, we can write the elasticity matrix \( E \) for any market as having a structure, \( E = S C M \), where \( S \) is a symmetric matrix, \( C \) is a diagonal matrix of scaling factors, and \( M \) a diagonal matrix of market shares. Matrix \( C \) in effect captures all the asymmetries in the market structure other than those nominally imposed by market shares. To recapitulate, once we factor out the market share effects from the elasticity matrix, a symmetric elasticity matrix structure implies a market structure devoid of any asymmetric competition between sub-markets and between brands within sub-markets. Absent such a symmetry, the scaling factor of the market share would capture all asymmetry involved in the competition. In this context it is worthwhile to point out, that current market structure identification procedures in the literature do not apply the criterion of market share adjustment before classifying brands (e.g., Russell 1992). Those procedures that implicitly use market share adjustment do not take into account possible asymmetries that may be latent in the market structure.
even after market share adjustment, for grouping purposes (e.g., Allenby 1989). Therefore we argue that the adjustment procedure we use here is more comprehensive.

In this paper, we propose a new and intuitive method to factor out the elasticity matrix $E$ into its components $S$, $C$, and $M$. Once this factoring is done, an inter-brand distance measure is computed using a formula similar to that found in Allenby (1989). However, we also explicitly consider the scaling matrix $C$ in computing this distance. Our method is then compared to Allenby’s method by applying this procedure to a store level dataset. Results indicate that the proposed method performs better in indicating the structure and separation of sub–markets in a multidimensional scaling map. We also illustrate our approach on a simulated elasticity matrix assumed to have a particular market structure, and show how our method performs better in delineating the known market structure.

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EXPLORING EFFICIENCY OF AUTOMOTIVE MARKETS: AN APPLICATION OF DATA ENVIRONMENTAL ANALYSIS

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SUMMARY

Ensuring increasingly car models perceived of higher value to fulfill the needs of the highest possible number of customers more satisfactorily and rapidly hinges on the product development process. Car manufacturers are required to combine increasingly specific market needs for value with sales to ensure success and thereby maintain or improve their position with regards to competitors. That consumers make purchase decisions based on maximizing their utility function with imperfect information raises some obvious questions: how do the car models positioned in the market in terms of providing consumers a set of utilities at a certain price? and how does such position relate to its market performance (e.g., sales)? To address these questions, the utility derived from personal cars might be an interesting area in which to perform consumption efficiency analysis: to examine which cars satisfy a consumer’s needs, given their costs. This study identifies and measures these needs to investigate the consumption efficiency by each car model, and therefore examines if and to what extent some car models/makes are superior.

The present research evaluates the efficiency of personal car market by using the non-parametric data envelopment analysis (DEA) approach, an operations research-based performance evaluation methodology. The input and output variables are defined and measured according to Consumer Reports and J.D. Power Associates. The sixteen attributes employed (ten objective attributes plus subjective ratings of six variables including comfort and styling) are to capture most of the variation in the major perceptual constructs identified by Gupta and Ratchford (1992), which are believed capturing the major dimensions used by consumers in buying automobiles. A car model is inefficient if there is some other car model with a lower price for equivalent or higher quality.

The data set covers 141 different car models in 2002, as appeared in the Consumer Reports magazine. Application of the DEA model shows that 21 out of 141 car models are price-efficient. Overall, it is noticed that the efficiency ratios are relatively low (average 0.765), with only 14.89 percent of the tested car models efficient. The lowest efficiency is obtained for the European cars (0.6305), with 15 percent of its tested car models efficient, and the highest for the Korean cars (0.9854). On the other hand, there is significant difference between the efficiencies of European and American car models (0.8135, with 13.7% of tested car models efficient). The average efficiency of Japanese car models (0.7314, with 13.3% of its tested car models efficient) is higher than European cars. The efficiency of American cars is higher than that of Japanese cars.

To investigate if and to what extent new car buyers behave according to the efficiency estimates of this study, a general sales model based on this “efficiency” framework is proposed and empirically tested. It is postulated that increasing sales depend on a production process incorporating efficiency of the car model, its depreciation rating, MPG (Mileage per Gallon), and customer satisfaction about the car model. In order to simultaneously test the hypotheses about the impacts of above factors on sales volume, a multiple regression analysis is conducted. There is a highly significant impact on sales depending on the efficiency ($\beta = 0.516, \text{sig.} = 0.004$). The positive signs of significant $\beta$ coefficients of efficiency, satisfaction, and depreciation tell that as these three variables increase, more gain of sales. Evidently, the high-efficiency car models are the best buy for many consumers. While one might assume gas mileage to be positively related to sales, the correlation between these two across car models is not significant. Cars more efficient on gas mileage doesn’t garner higher sales, probably will be explained by the popularity of SUV and minivans, which are gas inefficient cars. It appears that consumers who face brands that provide an unfavorable position on MPG are generally able to compensate for this in other attributes.

The vehicles that are listed by Edmunds.com as consumers’ most wanted are compared with those on the top of this efficiency list. Profiling the efficiency and the degree of being wanted by consumers for car models in nine car categories finds the majority of cars on both lists are consistent with each other. However, some car models that score well on efficiency are not that much wanted by consumers. The opposite is also true. This is despite the more general trend, also apparent, that higher overall efficiencies are associated with higher degree of being wanted. Clearly, judging long term viability on the basis of overall efficiency alone would overlook some car models good in attracting customers. Car models located at the “high efficiency/most wanted” quadrant should be viable so long as they at least maintain (in the long term) that position. Any scope for improved overall efficiency will reinforce the viability of these car models. The long-run viability of car models located in the “high efficiency/
“Low wanted” quadrant depends on any prospects for improved marketing communication/promotion strategies. There is probably a lot scope for generating further growth of buyers’ interest. There are some car models wanted by consumers despite their low efficiency scores. Long-term viability should be expected from them through scope for improved efficiency, a possible result of developing salient and unique benefits to differentiate from competitors. Car models with low efficiency and not much wanted by consumers require improvement in the product features and hence the overall efficiency. The producers also need to develop more effective marketing promotion or positioning strategies to improve the overall marketing performance of these car models.

One general finding from this research is that, on average, buyers of automobiles could save about 24 percent of the purchase price if they bought car models of at least equivalent utility that were cheaper. Potential car buyers always wonder if the car under consideration is worth purchasing, compared with other competitive cars. This study is an alternative approach to help potential buyers find the best car among a variety of models. References are available on request.

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MIXED METHODOLOGIES IN MARKETING RESEARCH

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ABSTRACT

Marketing has many difficult to quantify phenomena. However, the majority of researchers favor quantitative methods. A bias toward quantitative research may be causing marketing researchers to discard opportunities for rich qualitative observation. The marketing academy should revitalize qualitative research and teach the concept of mixed methods: qualitative and quantitative methods used in concert. This will empower our researchers to tackle our difficult problems with the widest toolset possible.

INTRODUCTION

The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function.

F. Scott Fitzgerald

Marketing is not the only discipline cursed by difficult to explain phenomenon, however it has the distinction of being one whose difficult aspects are highly visible. Marketing has at its core a consumer whose behavior is complex, resisting attempts at quantification. In an attempt to better understand this phenomenon, some academics turned to the social sciences, such as psychology and anthropology, to provide qualitative methodologies of insight, creating a rift between themselves and academicians who, desiring for marketing to be an exact science, only embrace quantitative methods of research.

This rift was only made deeper by the association of quantitative methods with the positivists and qualitative methods with the relativists. A large volume of marketing literature has accumulated arguing with religious zeal that the two schools of thought are “opposed ideas” that cannot be reconciled. This same debate flourished in the social sciences for a time but seems to have been resolved by a union of the two camps into a dominant pragmatist philosophy. The debate within marketing has cooled as well but the current state seems to be one of detente rather than reconciliation.

It is important to point out, however, that the two methodologies have been a part of science from the beginning, not merely since the labels “positivist” and “relativist” came into use. Bonoma (1985) states:

Since Hippocrates’ first presented 14 classic case studies of disease some 2300 years ago, science has proceeded along two divergent knowledge paths.

One involves formulating a tentative theory of a phenomenon “writ large,” deducing implied empirical consequences, and controlling situational events in order to observe the validity of empirical deductions. The second path, less frequently used but equally valid, is to reason from individual and naturally occurring but largely uncontrollable observations toward generalizable inductive principles.

In recent years, some scholars in the behavioral sciences have written about mixed methodologies, combining qualitative and quantitative methods either sequentially or simultaneously. These ideas have been increasingly embraced by the social sciences and marketing practitioners, but marketing academia has been largely silent on this subject. The purpose of this paper is to examine this concept, assess its current success as a methodology, summarize the arguments for and against and make findings as to its potential.

THE MIXED METHODOLOGIES CONCEPT

No single truth is ever sufficient, because the world is complex. Any truth, separated from its complementary truth, is a half truth.

Pascal

Mixed method studies are those that combine the qualitative and quantitative approaches into the research methodology of a single study or multi-phased study. The definition of a quantitative phase is quite liberal. It can be a phase of collecting purely numeric data or a phase of converting qualitative data into numbers.

Tashakkori and Teddlie (1998) note that there are three specific mixed method design types: equivalent status designs, dominant/less-dominant designs and designs with a multi-level use of approaches.

Equivalent status designs use qualitative and quantitative approaches equally. There are two variants: sequential designs, where separate qualitative and quantitative phases occur in any order, and parallel/simultaneous designs where qualitative and quantitative phases are conducted at the same time. In dominant/less-dominant designs, the researcher uses a single dominant approach with a small component drawn from the alternative approach. These designs can also be performed either sequentially or simultaneously. In designs with a multi-level use of approaches, different approaches are used at different levels of data aggregation.
Greene et al. (1989) denote five possible reasons for using for mixed method studies: triangulation, complementarity, development, to discover fresh insights and to be more comprehensive.

The philosophy behind triangulation is that by approaching the same research question using multiple and varied methodologies the validity of the research finding is increased. This philosophy assumes, of course, that the different methodologies will arrive at the same conclusion. This assumption is often wrong, the implications of which are discussed later. This is the most written about purpose for mixed methods and has three variants: multiplism, mixed paradigms, and mixed design strategies.

The most widely cited justification for triangulation is “multiplism,” using a combination of qualitative and quantitative observational methods to cancel out the bias present in any one method of data capture. This is termed the logic of convergence. The fallacy of this reasoning is discussed later.

Another justification for triangulation is to create a deliberate mixing of paradigms. As mentioned above, qualitative and quantitative research methods are often linked to contrasting inquiry paradigms (positive/relative). Pragmatists hold that these contrasting paradigms are logically independent and therefore can be mixed and matched with no ill effects. This is the most hotly contested belief about mixed methods and is discussed later.

Tashakkori and Teddlie (1998, p. 21) note that pragmatists consider the research question to be more important than either the method they use or the worldview that is supposed to underlie the method. As a result, a researcher might not be able to narrow the set of research design strategies considered for a specific research question down to one. A mixed design triangulation would allow the researcher to use all of the design strategies between which he cannot choose. Design strategies also might include: data triangulation, where more than one data source is used, and investigator triangulation, where more than one investigator is involved in the research process.

Another common reason for combining quantitative and qualitative methods is to use the results from one method to elaborate, enhance or illustrate the results from the other. Creating statistical summaries of qualitative data is a common example of “complementarity.”

A “development” rationale is unique to sequential mixed method designs. Here, one method is implemented first and the results used to assist in designing or interpreting the results of the other method. A common manifestation of this reason is where qualitative content (such as descriptions of phenomenon) is assembled in advance to allow the test subjects to rate their agreement with the content on a Likert-type scale.

Tashakkori and Teddlie (1998) say that instead of thinking that purely qualitative and purely quantitative studies are mutually exclusive, it is more productive to consider them as two ends of a continuum with a wide variety of designs in between.

ARGUMENTS IN FAVOR AND AGAINST MIXED METHODS

Mathematics has given economics rigor, but alas, also mortis.

Robert Heilbroner

Qualitative studies have the advantage of rich detail even though they generally do not allow for hypothesis testing by statistical inference. Quantitative studies, whether conducted in the laboratory or in the field, permit extensive statistical analysis but are too sterile to convey every aspect of a complex phenomenon like a consumer experience. Combining qualitative and quantitative studies has the potential to exploit their respective strengths if done properly. The qualifier “if done properly” is the key here, and refers to a choice of research objectives where one methodology is strong and the other weak. When such pairing is well selected then the resulting triangulation can offset individual method strengths and weaknesses. Bonoma (1985, p. 201), in comparing the two methodologies across the competing objectives of data integrity (freedom from error and bias) and generalizability, says: “a researcher can simultaneously pursue high levels of data validity and generalizability by adopting triangulation strategies which provide replication and/or corroboration of findings across methods within a single research project.”

Currall et al. (1999) say the aim of a mixed methods study is often to accomplish “discovery” and “justification” within a single research project. In fact, in the study quoted from they state that although previous research literature was the origin of their theoretical questions, they used their qualitative field notes to sharpen their theoretical ideas. This created a discovery-justification-discovery cycle that increased the knowledge yield from the study and approximated the effect of Zaltman et al. (1982) ideal of the generative theory.

Even though researchers will say that neither qualitative nor quantitative methods are inherently superior, no one can deny that there is an unproductive separation in their use. McCall and Bobko (1990, p. 412) have encouraged balance between the two methodologies by saying “there is no advantage to limiting our thinking about research methods to the procedures used in statistical
analyses and verification processes. Doing whatever needs to be done to enhance discovery is also a critical part of methodology.” A new methodological frontier lies, neither in the qualitative nor quantitative domain exclusively, but rather in how the two techniques can be interwoven to maximize the “knowledge yield” (McCall and Bobko 1990) of a research endeavor. Currall et al. (1999) found that by quantifying their qualitative data a methodological synergy was created between the two methods that added to the knowledge yield of their study in ways that reliance on purely qualitative or quantitative techniques would not have provided.

As stated earlier, pragmatists believe that the purpose of a proposed research study and the nature of the phenomenon under study should determine the choice of methodology used. Cook and Campbell (1979) suggest that there is a hierarchy of sequential stages in a line of research starting with discovery and proceeding through various levels of justification until finally cause and effect can be imputed. Bonoma (1985, p. 201) says qualitative methodologies are more efficient at the discovery stage while quantitative methods are more efficient at the latter stages. When quantitative methods are prematurely used to investigate research topics with little theoretical development the opportunity to develop in-depth contextual information is squandered.

Many types of marketing phenomenon cannot be studied outside their natural setting without distorting the behavior to be investigated. Additionally, many types of phenomenon, such as management best practices, are not quantifiable. Bonoma (1985, p. 202) says:

Regardless of whether these context and quantification limitations are expressions of the current lack of understanding for certain marketing phenomenon (poor theory development) or whether they represent limitations in measurement and analytic technology, much of what the marketing scholar might study requires a contextual sensitivity which cannot be achieved by methods that maximize data integrity.

In summary, the case for mixed methods is summarized by Campbell and Stanley’s (1963) assertion that no single research method is able to minimize bias and error while simultaneously maximizing generalizability; and by the need to corroborate findings. Preventing such corroboration from occurring by narrowing one’s methodological toolset to only a few habitually chosen methods makes a balanced inquiry less likely.

Jick (1979) says that researchers using multiple methods generally do not explain their techniques in sufficient detail for other researchers to understand how mixed data are collected or integrated. While this may be true, it does not invalidate the method to say that some have been lax in the use of it.

In the discussion of triangulation above, the logic of convergence fallacy was introduced. This fallacy is based on two assumptions: the bias inherent in any particular data source, investigator or method will be cancelled out when used in conjunction with other data sources, investigators or methods, and triangulation results in a convergence upon the truth about some social phenomenon.

The assumption that bias will be eliminated in a multi-method research design frequently goes unchallenged. Jick (1983, p. 138) points out the fallacy of this assumption when he states: “... triangulation purports to exploit the assets and neutralize, rather than compound, the liabilities.” In fact, Denzin (1983), while explaining the value of five different research methods (experiment, survey, participant observation, unobtrusive, and historical), points out that, rather than cancel bias, they produce different understandings of social phenomenon.

While this may seem to invalidate one of the primary reasons for using mixed methods, Mathison (1988) argues that any of three possible outcomes of triangulation are equally valuable to the researcher: convergence, when findings from different methods agree (i.e., the commonly assumed goal of triangulation), inconsistency, when findings from different methods present alternative propositions that neither agree nor overlap, and contradiction, when different methods result in opposing views of the phenomenon being studied.

Inconsistent or contradictory findings from the use of mixed methods are therefore not evidence for their condemnation but evidence that further research into the matter under study is required. A study may therefore use mixed methods with a triangulation motive and find that it has morphed into an initiation phase for further work.

Also in the introduction of triangulation above, the subject of mixed paradigms was introduced as another reason for using mixed methods. Anyone who has studied marketing theory will instinctively know that such a suggestion will inspire fierce debate. Rossman and Wilson (1985) describe a continuum of three positions when researchers are asked: Are mixed method evaluation designs in which the qualitative and quantitative methods are linked to contrasting inquiry paradigms meaningful, sensible and useful?

Purists (such as Guba and Lincoln 1984; Smith 1983; and Smith and Heshusius 1986) would reply to this question with an unqualified “no.” They argue that the attributes of a paradigm form a “synergistic set” that cannot be meaningfully segmented or divided up. They
would further maintain that different paradigms typically embody incompatible assumptions about the nature of the world and what is important to know. Therefore mixed method evaluation designs where the qualitative and quantitative methods are conceptualized and implemented within different paradigms are neither possible nor sensible.

*Situationalists* (such as Kidder and Fine 1987) believe that a line of inquiry belonging to one paradigm should remain intact. However, the results of completed inquiries can be compared across paradigms to explore convergences, mutual elaboration (synergistic richness of detail) or the initiation of new lines of investigation.

*Pragmatists* (such as Reichardt and Cook 1979) would answer with an unreserved “yes,” saying that paradigm attributes are logically independent and can be mixed and matched, along with methods choices, to achieve the combination most appropriate for a given inquiry. The pragmatist sees practical demands as the primary concern and leaves it up to the researcher to judge how methods should be combined to suit a specific research scenario.

The three positions seem irreconcilable until the rational for the Purist’s position is examined. Smith and Heshusius (1986, p. 6) only condemn the use of qualitative methods and the data collected when it is used as a means of *justification*. They state: “...the quantitative-qualitative debate has become a discussion of variations in techniques within the same logic of justification. Both approaches are thought of as having the same goals; both are interpreted the same way, and only the aspects of the practice differ.” While it may be true that some advocates of mixed methods support the use of qualitative methods in justification, this paper presents them as a tool of discovery only. It is clear from citations already given that Bonoma, McCall, and Bobko, Currall et al., Tashakkori and Teddlie, (the principal contributors to mixed methodology) are in agreement on this point.

It has been held in this discussion that the nature of the research problem should underlie the choice of methodology. Ideally, this would be the best situation; however Martin (1982) points out that the choice of research methodology is often based on skills and resources rather than either philosophical viewpoint or the problem being researched. Most researchers are trained in either qualitative or quantitative methodologies, rarely both. A researcher is unlikely to select a methodology in which he has no prior experience.

**THE USE OF MIXED METHODS IN MARKETING LITERATURE**

From the discussion thus far you might begin to think that the use of mixed methods in marketing research is uncommon. Since marketing research often involves studying the consumer to some extent the use of qualitative and quantitative phases in the same study is often unavoidable. It is the finding that quantitative phases dominant such research that is my concern. I searched the *Journal of Marketing Research* (JMR), the *Journal of Marketing* (JM), the *Journal of Consumer Research* (JCR) and *Marketing Science* (MS) for the years 2000 to 2004 (inclusive) and tallied the number of qualitative, quantitative and mixed method studies performed. I also characterized the design type and the rationale for the mixed method studies found. A total of 846 journal articles were examined: 242 (28.6%) in the JMR, 180 (21.3%) in the JM, 255 (30.1%) in the JCR, and 169 (20.0%) in MS. A

![FIGURE 1](image_url)

**FIGURE 1**

*Overall Classification of Articles from JMR, JM, JCR and MS*
total of 226 (26.7%) articles were classified as not coded (NC) because they involved no data collection (e.g., book reviews, opinions, pure literature reviews, and purely theoretical papers).

In Figure 1 the left pie chart shows the distribution of research methodologies within the journals. The section labeled as “Quantitative” denotes the percentage of articles employing purely quantitative methodologies, “Qualitative” denotes purely qualitative and “Mixed” denotes those using both. The right pie chart characterizes the dominant methodology in each study within the mixed section of the left pie chart.

I found that mixed methods research that was predominantly quantitative typically used a qualitative initial phase to develop Likert-like scales for data collection (a rationale termed developmental above). The degree of qualitative detail captured by these scales varied widely. Mixed method studies that afforded equal status to qualitative and quantitative phases were generally (96.5%) done for reasons of complementarity. Only 3.8 percent of these studies invoked triangulation as their rationale. This is surprising as triangulation is the most-cited reason for performing mixed method studies among proponents. Mixed method studies that were mainly qualitative always confined the use of the quantitative phase to summary statistics related to their qualitative findings.

CONCLUSIONS

Many of the authors whose work formed the literature review of this paper advocated changes to the way future researchers are trained in graduate school. Currall et al. (1999) believe that the merits of combining qualitative and quantitative methods argue for increasing the breadth of methods training, especially as it increases skill in the discovery process. In spite of the widespread use of mixed methods, qualitative and quantitative techniques tend to be taught in separate courses with no attempt made to offer insights into how they might be combined.

I would go further than advocating mixed methods training. My survey of journal articles shows that even though many studies use mixed methods, that usage is dominated by quantitative work. If the most difficult to explain marketing phenomena resists attempts to be more than superficially defined by mathematical models, then to empower our researchers to explore the depths of marketing phenomena we must increase skill and familiarity with qualitative methodologies themselves as well as the techniques needed to use them in concert with quantitative methods. In this way, the rigor of mathematics and the richness of qualitative insight will not only produce greater quantities of publishable work with qualitative content but also advance the state of marketing knowledge.

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A CONCEPTUAL MODEL OF CROSS-FUNCTIONAL INTEGRATION 
AND NEW PRODUCT PERFORMANCE: A GROUP 
EFFECTIVENESS PERSPECTIVE 

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SUMMARY 

The heart of new product development (NPD) is the 
cross-functional project team (Brown and Eisenhardt 
1995). Yet cross-functional teams often fail to deliver 
high performing new products, impeded by differences 
and conflicts among members. Not surprisingly, cross-
functional integration, or the coordinated utilization of 
functional specialists, has become a central focus of NPD 
research. In this study we address two relevant and unre-
solved research questions: (1) does cross-functional inte-
gration in NPD teams improve new product performance 
and if so how, and (2) what are ways to strengthen cross-
functional integration in NPD teams, assuming it benefits 
performance? 

With respect to the first question, Henard and 
Szymanski’s (2001) meta analysis found that cross-func-
tional integration was one of the most frequently studied 
variables, but neither correlates with nor predicts new 
product performance (NPP). The analysis suggested that, 
while there is no direct tie between integration and NPP, 
there might be an indirect one. Because that study showed 
that the greatest direct determinant of NPP was new 
product advantage, could it be that cross-functional inte-
gration is linked to NPP through new product advantage? 
This study investigates the possible mediating role of 
advantage between cross-functional integration and NPP, 
thereby addressing the first research question. 

To address the second research question, we chose to 
examine possible antecedents of cross-functional integra-
tion. We focused on antecedents relevant to teams and 
NPD projects since recent research indicates that vari-
ables at the firm and NPD program level provide limited 
exploration of innovation activities and results. More 
specifically, the literature suggested that certain internal 
team characteristics (social cohesion and super-ordinate 
identity) and external team characteristics (market-orien-
ted reward system, planning process formalization, and 
managerial encouragement to take risks) facilitate cross-
functional integration in teams and on innovation projects. 

We pursued the two research questions conceptually 
by developing a framework and detailing it through litera-
ture-based research propositions. The framework is based 
Hackman’s model is particularly suited for issues on 
small, complex work units like NPD teams. Essentially 
our paper posits that integration is positively influenced 
by the five internal and external team antecedents, and in 
turn contributes to NPP. However, the contribution is 
indirect through new product advantage. 

Our intended contribution was threefold. First, the 
study proposes the potential mediating role of new prod-
uct advantage between integration and NPP, and thus 
explains whether and how the latter two are linked. 
Second, the study investigates several team-relevant vari-
able as antecedents to integration, and thus how integra-
tion in NPD teams may be strengthened. Third and most 
importantly, the study applies for the first time the group 
effectiveness perspective to NPD teams. This perspective 
promises to extend current theorization on how integra-
tion is achieved and subsequent benefits to new product 
outcomes. References available upon request. 

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PSYCHOLOGICAL OWNERSHIP IN THE NEW PRODUCT DEVELOPMENT PROCESS

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SUMMARY

This paper proposes a detailed look at one particular construct – psychological ownership – and the role that it may play in the new product development process. Factors such as senior management commitment, organizational structure and processes and goal setting have been identified as having significant impact on the success (or lack thereof) of firm new product development activities (Bonner et al. 2002; Ernst 2002; Lester 1998; McDonough 2000). Despite extensive study of the use and effectiveness of cross-functional teams in the new product development process (Barczak and Wilemon 2001; Sethi 2000; Sethi and Nicholson 2001; McDonough 2000), there are still questions of how to improve performance and which factors may help or hinder (Ernst 2002; Lester 1998).

One factor of interest yet to be examined in the new product development literature is psychological ownership. The term in this context does not refer to legal ownership and control of a product or organization, but rather to a feeling of ownership and control. Pierce, Kostova, and Dirks (2001) conceptualize psychological ownership as “that state [of mind] in which individuals feel as though the target of ownership (material or immaterial in nature) or a piece of it is “theirs” (i.e., “It is MINE!”) The core of psychological ownership is the feeling of possessiveness and of being psychologically tied to an object (p. 300).” In the new product development context, psychological ownership will be considered as a feeling of possessiveness and identity toward a particular new product development project. It can be conceived of as a continuous variable, with low, moderate or high degrees of ownership felt by an individual or team for a particular project. It is interesting to contemplate the likely effect of such varying degrees on new product development performance, and the possible differential effects between individual (“mine”) and team or organizational (“ours”) ownership feelings.

Based on new product development and psychological ownership literature, the following propositions are developed:

P1: Moderate degrees of psychological ownership will be associated with higher levels of new product development market performance and satisfaction with the new product development process; very high and very low degrees of psychological ownership will be associated with lower levels of market performance and lower levels of satisfaction with the process.

P2: Degree of psychological ownership will vary across corporate departments involved in the new product development process.

P3: Team or project leaders will have a higher degree of psychological ownership than others involved in the new product development process.

P4: Product champions will show a higher degree of psychological ownership than nonchampions.

P5: Radical innovations and/or new-to-the-world projects will be associated with higher degrees of psychological ownership demonstrated by all participants than projects involving less radical innovations.

P6: Differing degrees of individual psychological ownership within a team will lead to lower levels of satisfaction among team members and to worse marketplace performance.

P7: A moderate degree of a joint sense of team psychological ownership (e.g., “It’s OURS”) will result in higher levels of satisfaction among team members and in better marketplace performance.

The development of an instrument to measure psychological ownership with regard to new product development is proposed.

This research would contribute to the growing literature on psychological ownership by examining it in detail in the specific, likely context of new product development. It would identify some possible performance consequences as well as some conditions associated with the development of psychological ownership. References available upon request.
THE PSYCHOLOGICAL EFFECTS OF INTERDISCIPLINARY COOPERATION IN INNOVATION PROJECTS

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SUMMARY

In the last two decades, researchers have provided strong empirical support for the positive impact of cross-functional cooperation on the success of innovation projects (Ayers et al. 1997; Clark and Fujimoto 1991; Kahn 2001). Companies which use integrative mechanisms to span organizational boundaries usually hope to foster the cooperation of experts from all functional areas which are critical to innovation. This, in turn, is expected to enhance the market response to newly developed products and to cut cycle time (Griffin and Hauser 1996; Sethi and Nicholson 2001; Atuahene-Gima and Evangelista 2000). In her summary of the PDMA survey, Griffin (1997) was able to show that cross-functional teams are employed in about two thirds of new product development projects.

Empirical evidence indicates that members of innovation teams often refuse to engage in close cooperation relationships with representatives of other functions and disciplines. As a result, numerous variables related to interface problems have been identified (Gupta and Wilemon 1988; Souder 1988). These barriers to cooperation can basically be differentiated into two categories: organizational and personal barriers. The latter type of variables is rooted in systematic personality and behavioral or motivational differences between the representatives of different functions. Difficulties and conflicts in cross-functional cooperation may not be exclusively due to actual differences between members of the technical and business discipline. The effectiveness of the innovation process may also be negatively influenced by stereotypes that different functional areas have toward one another (Ashforth and Mael 1989; Dougherty 1992; Sethi and Nicholson 2001).

Many empirical studies have identified the intensity and quality of cross-functional cooperation as the dependent variable to be explained by organizational and personal antecedents to cooperation. Conversely, in this study, the type and quality of cross-functional cooperation serves as the independent variable. We propose that a given cooperation experience impacts several psychological variables related to interdisciplinary teamwork. The present study aims to contribute to clarifying the effects of interdisciplinary project experience. In particular, we examine the following: (1) how the type and quality of interdisciplinary project experience impact personal evaluations of the projects by team members (learning and cooperation satisfaction), (2) how attitudes towards interdisciplinary cooperation change due to work on such projects, (3) the extent to which these attitudinal changes are associated with personal evaluations of the projects, and finally (4) whether the changes in attitude impact the intention to engage in future interdisciplinary cooperation.

We report on the results of a survey of 25 interdisciplinary innovation teams in the university context. The results support the predictions of our framework. Besides achieving performance objectives in a given innovation project, managers should also pay attention to the personal success, the attitudes and the intentions of the project members. This can be interpreted as an investment with a view to improving interdisciplinary cooperation in the future. References available upon request

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ARTICULATION AND MEMORY: CONSUMER RESPONSE TO SPONSORSHIP-LINKED MARKETING

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SUMMARY

Corporate sponsorship of events contributes significantly to marketing aims including brand awareness as measured by recall and recognition of sponsor-event pairings. Cornwell (1995, p. 15) defines sponsorship-linked marketing as “the orchestration and implementation of marketing activities for the purpose of building and communicating an association to a sponsorship.” Some sponsorship links capitalize on self-evident image relationships (e.g., athletic shoes and sporting events), however, in instances when the relationship between the sponsor and event is not logically sanctioned (e.g., financial services and cancer research), articulating this relationship becomes the responsibility of the marketer. Crimmins and Horn (1996) have argued that strengthening the link between the event and the sponsor is mainly accomplished via packaging, public relations, promotion, advertising, direct marketing, and merchandising. In other words, collateral communications should explain the link between the sponsor and sponsee. Crimmins and Horn do not specifically examine the nature of communicated messages, or their influence on memory. Thus, important issues highlighted by their work concern: the role of message articulation in building a link between a sponsor and event; the influence articulation has on memory for the sponsorship relationship; especially for brands not having a self-evident link to a particular event.

Theoretical Background

One of the central tenets of sponsorship research is that congruency (i.e., fit, relatedness, or similarity) between the sponsor and event improves memory for the sponsor-event relationship and potentially facilitates other aspects of communication (Cornwell 1995; Cornwell, Pruitt, and Van Ness 2001; Ferrand and Pages 1996; Gwinner 1997; Johar and Pham 1999; McDaniel 1999; Musante, Milne, and McDonald 1999; Quester and Farrelly 1998; Rifon et al. 2004; Speed and Thompson 2000). Unfortunately, such advantages accrue disproportionately to brands having a natural or congruent fit with the available sponsorship properties. In memory research Hunt and Einstein’s (1980, 1981) work on the role of item and relational information along with earlier work on verbal mediation, suggest that it may be possible to enhance the ability to recall the sponsor given the event, and the event given the sponsor, by providing a plausible link between the sponsor and the event. We thus compare simulated press releases with and without such a link.

Design, Procedure, and Results

Forty-eight study participants were assigned to a 2x2x2 mixed factorial design manipulating exposure-to-competitor (interference: competitor present vs. competitor absent), event-sponsor match (congruence: congruent vs. incongruent which was pre-tested with 36 similar participants), and salience of event-sponsor association (articulation: articulated vs. unarticulated). Interference was a between-subjects variable, congruence and articulation were within-subjects variables. Students participated in the study to fulfill a partial credit requirement.

All brands utilized in the study were well-known international or national brand names and all events were fictitious. Twenty-four sets of press releases were constructed: one set for each of the twelve fictitious events in which a competitor was mentioned; and one set in which a competitor was not mentioned. For a given event, two versions of the press release were constructed for each congruent sponsor and two for each incongruent sponsor – one in which the event-sponsor association was articulated and one in which the event-sponsor association was not articulated. Each participant received a total of 12 press releases during exposure. The press releases for the twelve events were counter balanced and presented in a random order for each participant. The exposure phase was computerized and self-paced with participants pressing the space bar following the presentation of a press release to indicate they had finished reading the passage of text. Following exposure, participants spent 10 minutes engaged in a visuo-spatial puzzle task. Participants were informed that they would be provided with the event name from each event-sponsor pair and that they were required to respond verbally with the name of each sponsor.

A 2x2x2 mixed model ANOVA was performed to examine the effect of interference (competitor present vs. competitor absent), congruence (congruent vs. incongruent), and articulation (articulated vs. unarticulated), on the
proportion of sponsors correctly recalled. A marginally significant effect of interference, $F(1,46) = 3.12, p < .084$, was observed (competitor present: $M = .57$; competitor absent: $M = .68$). A significant main effect of congruence, $F(1,46) = 8.66, p < .005$, and a significant main effect of articulation, $F(1,46) = 4.07, p < .049$, was observed. That is, the proportion of correct recall for congruent sponsor-event pairings ($M = .69$) was higher than for incongruent pairings ($M = .56$); and the proportion of correct recall was higher in the articulated conditions ($M = .67$) than in the unarticulated conditions ($M = .59$). There were no significant interactions (all $F$'s < 1). The results show a positive influence of articulation on memory for sponsor-event pairings. While congruent sponsors have a natural memory advantage, results demonstrate that memory improvements via articulation are possible for incongruent sponsor-event pairings. References and details of the experiment are available upon request.

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AN EMPIRICAL EXAMINATION OF UNUSUAL FAN BEHAVIORS:
BASKING IN REFLECTED FAILURE AND CUTTING OFF REFLECTED SUCCESS

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ABSTRACT
Surveys results drawn from NCAA basketball games indicate that fans report to engage in the somewhat unusual behaviors of basking in reflected failure (BIRF) and cutting off reflected success (CORS). Statistically significant differences and linear trends exist between levels of fan identification, age groups, and across team win-loss records.

INTRODUCTION
By its very nature, the concept of fanship is an extremely complex consumer phenomenon encompassing a wide range of inter-related topics including symbolic and hedonic consumption (Hightower, Brady, and Baker 2002; Chun, Gentry, and McGinnis 2003), social values (Simon 1985; Kahle, Duncan, Dalakas, and Aiken 2001), and self-image management (Cialdini and Richardson 1980; Sloan 1989; Branscombe and Wann 1991; Wann, Royalty, and Roberts 2000). Fanship can be linked to internal psychological factors related to self-image as well as external sociological factors related to perceptions from others (i.e., the “ideal social self” discussed by Markus and Kitayama 1991). From a consumer behaviorist’s point of view, winning can relate to an internalized positive self-definition as well as an externalized enhanced position in the social environment (Kahle, Kambara, and Rose 1996). The occurrence of basking in reflected glory (BIRG) is well documented and reflects the psychological nature of fanship and the premise of vicarious achievement (Cialdini et al. 1976). On the other hand, when an athlete or team fails, fans tend to distance themselves through a process labeled cutting off reflected failure (CORF) (Snyder, Lassegard, and Ford 1986). Rather than lessen an internal self-image, or suffer the consequences of a weakened position in the social environment, fans will often dissociate themselves from unsuccessful others.

While these constructs are critical to understanding relationships between team success and fan associations, Campbell, Aiken, and Kent (2004) recently established that there is a great deal more to be studied in the realm of fan behavior. For instance, a number of fans will often remain loyal, or even strengthen ties, with unsuccessful teams. In a sense, these fans are basking in spite of reflected failure (BIRFing). For example, major league baseball’s Chicago Cubs have a very loyal fan base despite their long-standing and well-documented failures (Bristow and Sebastian 2001). Especially in view of collegiate athletics, strong fan/consumer ties are almost certainly forged and maintained independent of win-loss records. Surprisingly, this tendency to tout fanship in the face of failure, to revel in loyalty to losers, has yet to be empirically investigated by sport marketing researchers.

Another observed behavior not fully explained by BIRGing and CORFing is that of fans cutting off ties with successful teams. While the notion of cutting off reflected success (CORSing) may appear counterintuitive at first glance, an increasing number of fans have become disenfranchised with seemingly greed-driven owners, players, and ever-thriving commercialism (Zimbalist 1999). This subset of fans may believe that teams and owners have “sold out,” that they have lost touch with their fan base, or that perhaps they have strayed from the true nature of the game as sport. It is not hard to imagine groups of fans fed up with superstar athletes, their multi-million dollar contracts, their extravagant lifestyles, and their pretentious styles of play. The CORSing Laker, Yankee, or Cowboy fan perhaps longs for the “old school” values of sportsmanship ahead of showmanship, dedication to the team before dedication to the paycheck, and the athlete as role model rather than celebrity idol (Sukhdial, Aiken, and Kahle 2002; Aiken and Sukhdial 2004). In regards to college athletics, it is not difficult to envision many fans disenchanted by the big-business surroundings of CBS Sportsline’s Road to the Final Four® or the complexities and inherent unfairness of the BCS and its corresponding fill-in-your-business-name-here eBowl. The growing awareness of poor graduation rates and increasing levels of NCAA violations must be turning some fans away, regardless of any number of wins (Zimbalist 1999). Again, this somewhat unusual consumer behavior has yet to be studied in any empirical fashion.

The purpose of this paper is to investigate the newly extended conceptual model of fan behavior proposed by Campbell, Aiken, and Kent (2004). A survey of fans at three men’s NCAA basketball games provides an empirical foundation for the extraordinary notions of BIRFing.

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and CORSing. The following sections present a more detailed discussion of the conceptual model followed by the methods and results of the study.

EXTENSION OF THE CONCEPTUAL MODEL

While BIRGing and CORFing put forward two well-developed and well-studied areas of fan behavior, a more comprehensive view of the complex relationships between fan associations and team success necessitates two new ideas. Campbell, Aiken, and Kent (2004) propose, in the first case, that team performance may be negative yet fans’ associations may be positive. Thus, fans behave in such a way as to trumpet their relationships despite a team’s failures. They describe these actions as basking in reflected failure, or BIRF. While the team may be losing, fans in this case are reveling in loyalty, rebelliousness, and other alternative reasons for fandom.

The reasons for BIRFing can be divided into two main areas. Internally, a number of image-management issues arise. Loyalty is often described in terms of a blend of attitude and behavior that can be measured by the degree to which one favors a certain product and/or brand (Day 1969; Pritchard, Havitz, and Howard 1999). Basking in reflected failure may be deemed loyalist behavior, wherein a fan remains true to the team (as a branded product) regardless of failures. Inasmuch as loyalty is seen as a positive human attribute, BIRFing exists as a fan’s attempt to manage their self-concept. The notion of a direct management of the self-concept has received much empirical support (see Sirgy 1982). Simultaneously, the notion of BIRFing becomes a direct method of retaining cognitive balance (Heider 1958). While the team is losing, BIRFing fans still see themselves as winners due to their loyalties. In this sense, BIRFing fans may be dealing with a form of post-purchase dissonance following a loss. Fans turn to BIRFing as a means of dealing with the cognitive incongruities that develop between being a fan and seeing one’s team lose. Additionally, BIRFing may stem from a fan’s internally held need for either camaraderie or individuality. BIRFing relates to camaraderie in the sense that these fans prefer to be with people of like values and opinions. It relates to individualism in the sense that the fan that engages in BIRFing may look upon the act as a means of expressing “self-uniqueness” (Lynn and Harris 1997). BIRFing fans are clearly engaging in less popular fan behaviors. Finally, BIRFing may be viewed as a self-perpetuating force. To not BIRF (essentially, to CORF) may begin an internal degradation of the self as a quitter, or a fair-weather fan.

Externally, BIRFing entails indirect methods of image management. These social techniques are characterized as indirect because they influence one’s image in the eyes of social observers (Cialdini and Richardson 1980). Again, inasmuch as society views loyalty as a positive trait, people will tend to BIRF as an attempt to signal this positive attribute to others – an external badge of honor worn to display loyalties in the face of hardship. BIRFing perpetuates the illusory pay-off of future benefits. Believing that “someday, my loyalties will be recognized and rewarded,” fans are driven by social processes. Moreover, not BIRFing may have some social stigma attached. One may be seen by society as disloyal. Lastly, the act of BIRFing often leads to a strengthening of social bonds amongst these true, diehard fans (see Turner et al. 1984; Fisher and Wakefield 1998). Issues of rebelliousness and camaraderie arise (e.g., New Orleans Saints fans steadfastly supporting the team while playfully wearing bags over their heads).

In the second case, team success might be positive, yet fans’ associations may be negative. This phenomenon is labeled cutting off reflected success, or CORS. In this instance, while a team might have a winning record, a fan may dissociate themselves from the team. Here, Campbell, Aiken, and Kent (2004) again posit reasons of loyalty (to an earlier era, a previous style of play, prior coaching/management, etc.), a need for individuality, and possibly a fear of success (to ascend to new heights implies a chance for a greater fall).

The reasons for cutting off reflected success can similarly be divided between internal and external bases. The primary internal element surrounding CORSing is the desire to have things remain as they once were. The CORSing fan likely has a high preference for consistency (Cialdini, Trost, and Newsom 1995) and a low susceptibility to interpersonal influence (Bearden, Netemeyer, and Teel 1989). For some, the need for consistency may be so strong that remaining true to previously held values may supercede their relationship with the team. The fan still wants his/her team to win; however, only under certain circumstances. The fan may not want to be a part of wholesale changes such as new management philosophies or different team/player personnel. Another possibility for explaining such behavior may have to do with the exhilaration some fans realize by associating themselves with an underdog. The interest of such fans dissipates as the team begins to achieve consistent success and assumes the role of favorite. Further, the fans that engage in CORSing may harbor a deeply felt need for individualism similar to fans that BIRF. Certainly, the act of CORSing relates to a relatively smaller group of fans that do not require social approval and are not as susceptible to interpersonal influence or reference group influence (Park and Lessig 1977).

Externally, cutting off reflected success may appeal to rebellious individuals who act against convention in social situations. The need for individuality may impact a fan’s decision to create distance from a successful team. Rubenfeld (1986) describes a desire to balance the need
for community and the need for individuality. CORSing may be a manifestation of an individual seeking that balance. A second external reason for CORSing is that a fan may hold resentment towards “bandwagon jumpers” – that is, other fans who have not been loyal through the bad times and now join the crowd as a team becomes successful. In the 1990’s examples of franchises that went from the bottom of their respective leagues to the top include the Cleveland Indians, Atlanta Braves, and Dallas Cowboys. Each of these franchises garnered many new fans as they began to achieve on-field success. It is entirely plausible, however, that many diehard fans felt resentment and even diminished in their roles as fans through CORSing.

**HYPOTHESES**

Recent research has linked the notion of fan identification to a variety of psychometric measurements and fan behaviors (Wann, Brewer, and Royalty 1999; Wann, Royalty, and Rochelle 2002; Fink, Trail, and Anderson 2002). The more highly identified fans feel closer to the team, they believe that they share common bonds/values, and they may be more vulnerable to changes in the team’s performance (Wann and Branscombe 1993). Research has shown that more highly identified fans are more likely to BIRG and CORF (Wann and Branscombe 1990; Hirt et al. 1992). Thus it seems logical to suggest that more highly identified fans will engage in higher levels BIRFing and CORSing. By BIRFing, fans express their loyalties to the team. By CORSing, these same highly identified fans express their distaste for the way things have changed. Therefore, we posit:

**H1a:** More highly identified fans will engage in higher levels of BIRFing.

**H1b:** More highly identified fans will engage in higher levels of CORSing.

A great deal of previous research has examined the importance of a winning record. For instance, utilizing data from college football fans, Kahle, Kambara, and Rose (1996) cited identification with a winning team as a key component in their functional model of fan attendance. Greenstein and Marcum (1981) found that 25 percent of variance in attendance could be attributed to team performance in major league baseball. Finally, across various sports, team success ranked as the primary reason for currently following a team (Kimble and Cooper 1992; Wann, Tucker, and Schrader 1996). We posit that winning relates positively to both the degree and the strength of fan associations. We realize that almost every season has both wins and losses. When a team with a winning record suffers a defeat, BIRFing fans would tend to proudly display their loyalties. This group might see the very act of BIRFing as a projection to others of their loyalty and a call to rally for future support. Additionally, teams with winning records would tend to bring out more fair-weather fans during a season. Many such fans quickly and easily jump on the bandwagon, cheering for their new favorite team. When the team suffers a loss, even within a successful season, these fans are more likely to abandon the team or exhibit some sort of CORSing behaviors. In the context of this study, it is the fair-weather fans that are drawn to the winning teams that will report higher levels of CORSing. Besides, CORSing necessitates winning records. That is, only fans of winning teams have the opportunity to exhibit attitudes and behaviors consistent with CORSing. Therefore,

**H2a:** Fans of teams with winning records will engage in higher levels of BIRFing.

**H2b:** Fans of teams with winning records will engage in higher levels of CORSing.

**METHOD**

A survey was developed for administration at NCAA men’s basketball games. The survey was designed to be relatively short so that it could be administered upon arrival to the arena. BIRFing and CORSing were each measured by three attitudinal variables (on a 7-point Likert-type scale). Identification was measured through the use of Wann and Branscombe’s (1993) 7-question scale. Age, education and income were recorded categorically. The survey was administered within a two-week period by groups of trained researchers at three different universities. In each case, the survey was administered during one of the last two home games of the season. The first university was a Division I school located in Southern California and had a record just above .500. The second school was a Division I school located in the mid-west, and the men’s basketball team was on its way to winning their division. The final university competed in the NCAA Division II and also had a winning record.

Given that members of the research teams were university students dressed in school colors, a large majority of those fans approached were willing to complete the brief survey. The sample total reached 616 respondents. The sample consisted of approximately 56 percent females. A wide age range was attained. In terms of education, 86 percent of the sample reported to have some college or to be a college graduate. Finally, the income distribution varied widely with none of the five categories reaching over 30 percent.

**RESULTS**

The data tend to show foundational support for the existence of the BIRF and CORS concepts. Generally speaking, there appears to be more evidence of BIRFing
than CORSing. That is, the means for the BIRF variables are frequently higher than the CORS variables. Due to the nature of our quasi-experiment, win-loss records could not be controlled nor could the data collection control for the fact that all three teams had won their previous contests. To separate identification groups, mean scale scores were divided into thirds and labeled as less identified, mid-identified, and highly identified (see Table 1).

Hypothesis 1 predicted a positive relationship between fan identification and levels of both BIRFing and CORSing. ANOVA was used to test for differences between the three groups and also for linear trends across the groups. All three BIRF variables showed significant differences between groups and significant linear trends [F-statistics ranging from 6.4 (p < .002) to 64.7 (p < .000)]. In all three instances, as levels of fan identification increased so too did the mean BIRF scores of the groups. Thus, Hypothesis 1a was supported. However, relative to fans CORSing tendencies, Hypothesis 1b was not supported. There were no significant differences between the means of the identification groups.

Hypothesis 2 proposed that fans of teams with winning records would be more likely to BIRF (H3a) and more likely to CORS (H3b). In this instance, it was interesting to note that fans of the “winning” NCAA Division II team were consistently lower in terms of both BIRFing and CORSing than their Division I “winning” team counterpart. Additionally, the Division II team’s fans were higher than the Division I “just .500” team in measurements of five of the six variables (thus exposing linear trends, again, in five of the six instances). Making a more direct, and perhaps more appropriate, comparison

### TABLE 1
Mean Ratings by Fan Identification Group

<table>
<thead>
<tr>
<th></th>
<th>Less Identified</th>
<th>Mid-Identified</th>
<th>Highly Identified</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basking In Reflected Failure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am just as likely to wear school gear (e.g., sweatshirts, caps, etc.) after a school loss.</td>
<td>5.14 (205) 1.78</td>
<td>5.60 (185) 1.41</td>
<td>6.00 (200) 1.51</td>
<td>5.57 (590) 1.62</td>
</tr>
<tr>
<td>When the school basketball team loses, I feel ashamed to be a fan. (r)</td>
<td>5.67 (201) 1.48</td>
<td>5.78 (185) 1.61</td>
<td>6.41 (194) 1.15</td>
<td>5.96 (580) 1.46</td>
</tr>
<tr>
<td>I am a loyal school fan regardless of any number of losses.</td>
<td>4.88 (204) 1.63</td>
<td>5.50 (184) 1.58</td>
<td>6.44 (197) .95</td>
<td>5.60 (585) 1.56</td>
</tr>
<tr>
<td><strong>Cutting Off Reflected Success</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>If academics suffered, but as a result the team won more games, I would be less of a fan.</td>
<td>4.17 (205) 1.89</td>
<td>4.41 (186) 1.83</td>
<td>4.03 (200) 2.02</td>
<td>4.20 (590) 1.87</td>
</tr>
<tr>
<td>I would be more of a fan, if a change in the school philosophy led to more wins for the team. (r)</td>
<td>4.17 (205) 1.53</td>
<td>4.03 (187) 1.79</td>
<td>4.50 (190) 1.98</td>
<td>4.23 (582) 1.78</td>
</tr>
<tr>
<td>If school began putting athletics ahead of academics, I would be less of a fan, regardless of the success of the program.</td>
<td>4.64 (205) 1.89</td>
<td>4.47 (187) 1.94</td>
<td>4.61 (196) 1.97</td>
<td>4.60 (588) 1.93</td>
</tr>
</tbody>
</table>

* Mean score between 1 (strongly disagree) to 7 (strongly agree)
(r): Reverse coded item
“school” – the specific name of the university was inserted here
behaviors. Fans are distancing themselves from success, then sport hand, appears to be a matter of relationship marketing. If much attention to team losses. CORSing, on the other

tween touting positive feelings of loyalty and drawing too

BIRFing, marketing messages must strike a balance be-

BIRFing and CORSing are quite intriguing. In the case of

This is not surprising given that these fans are the only

winning teams showed a greater willingness to CORS (t-statistics ranged from 8.1 to 2.9; p < .004 in all cases). Thus, H3b was supported.

**DISCUSSION**

Results of the study indicate that fans of college athletics do indeed report to engage in these somewhat unusual behaviors. While it should be noted that self-reports of intentions are certainly different than actual behaviors, the notion of basking in spite of reflected failure appears to be fairly pervasive. Interestingly, signi-
nificant linear trends exist between BIRFing and levels of fan identification. More highly identified fans tend to report higher levels of BIRFing, perhaps because of the deeply-rooted values held by these fans. Additionally, older fans and fans of teams with winning records report more BIRFing. While this study provides preliminary evidence of the BIRF phenomenon, future studies are needed in order to attain a richer understanding of the dimensionality of the concept.

The notion of cutting off reflected success appears to be a more unusual, and perhaps more complex, fan behav-

ior. In the context of this study, mean scores of the CORS variables were consistently lower than mean scores of the BIRF variables. The data do not show relationships be-

between CORSing and fan identification. It appears, how-

ever, that the relationship between age and CORSing tendencies is positive. That is, older fans engage in more CORSing. Perhaps this finding is attributable to the premise that older fans are more tied to the traditional philosophies and values of their favorite teams. While fundamental changes might bring about more wins, these fans would be more inclined to sever their support. Additionally, fans of winning teams showed a greater willingness to CORS. This is not surprising given that these fans are the only fans with the opportunity to CORS.

The strategic marketing applications relative to BIRFing and CORSing are quite intriguing. In the case of

BIRFing, marketing messages must strike a balance be-

tween touting positive feelings of loyalty and drawing too much attention to team losses. CORSing, on the other

hand, appears to be a matter of relationship marketing. If fans are distancing themselves from success, then sport marketers must strive to understand the reasons why and then attempt some form of relationship recovery. Sport marketers may tailor specific promotions and advertising messages aimed at the unique subgroups of BIRFing and CORSing fans. The marketing of tickets, especially dur-

ing losing seasons, appears to directly relate to loyalist behaviors such as BIRFing. On the other hand, in an effort to lessen any effects of CORSing during or after winning seasons, marketers may want to stress the consistency of the organization’s management philosophy or the social rewards of remaining true to the team. Finally, the subsets of both BIRFing and CORSing fans appear to carry unique market segmentation issues relative to their unusual behaviors. BIRFing fans could likely be evaluated and grouped according to measurements of loyalty, collectivism, and needs for belonging. CORSing fans could be segregated according to variables such as the need for independence, rebelliousness, and old schoolness.

The purpose of this paper was to empirically investi-

gate the newly extended conceptual model of fan behavior put forth by Campbell, Aiken, and Kent (2004). The study provides preliminary evidence supporting the concepts of basking in reflected failure and cutting off reflected suc-

cess. While future studies should evaluate observed be-

haviors rather than survey behavioral intentions, market-
ing researchers should recognize that fan behaviors are dynamic, complex, and contain many socio-psychologi-

cal interactions. In summary, the BIRF/CORS concepts establish yet another way to further delineate, investigate,

and understand the complex world of fan behavior.

Interestingly, to the extent that sport is just another form of the product that is entertainment, BIRFing and CORSing could potentially be applied to a broader range of fan behaviors. The concepts could quite easily be related to fans consuming the fine arts, dramatic arts, and performing arts. For instance, many people brag about an artist, actor, or musical group by stating, “I knew them when . . . before they made it big.” The very phrase, “starving artist,” holds a great deal of appeal to the common fans rooting for their favorite artists to achieve commercial success. These fans are essentially BIRFing. Of course, when their favorite artists do succeed they may proceed to BIRG. However, on the contrary, a subset of fans of artists, actors, and musicians becomes disenfran-

chised when the artist they follow becomes too popular, “sells out,” or becomes too commercial. In this in-

stance fans may begin to CORS – it is not difficult to imagine (e.g., “I really admired Andy Warhol, Tom Cruise, and Dave Matthews before they became so popular. I prefer their earlier works. Now, I see them as just too commercial.”).
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CONSUMER IDENTIFICATION WITH MULTIPLE FOCI AND THE
FULFILMENT OF CONSUMERS’ NEEDS:
A CONCEPTUAL FRAMEWORK

Andrew T. Stephen, University of Queensland, Australia
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SUMMARY

The notion of consumer identification has received much scholarly attention in recent years. This attention is not surprising, as scholars and practitioners search for explanations for consumers’ willingness to engage in relational behaviors in competitive marketplaces. Derived from theories of social identity and organizational identification, consumer identification provides a useful construct for understanding the bonds that can develop between consumers and marketplace entities (e.g., brands and products, retailers and manufacturers, and consumer communities). Much extant literature considers identification with a single entity; however, the reality of consumer marketplaces is much more complex. Consumers are exposed to stimuli from multiple entities to which they potentially identify. Multiple foci of identification have been scantily explored in extant literature (e.g., Bhattacharya et al. 1995; van Knippenberg and van Schie 2000). Conceivably, multiple foci of identification may simultaneously influence individual consumers’ attitudes and behaviors in the marketplace. Consumers can form psychological bonds or connections with marketplace entities such as brands, retailers (companies), other consumers, and products, all of which are potential sources of meaning, self-definition, and needs-satisfaction for individual consumers.

The main purpose of this paper is to explore multiple foci of identification, and to develop a richer conceptualization of the identification construct and the psychological process of identification. Previous studies tend to focus on attributes of objects as precursors to identification. In a departure from this viewpoint, this paper explores the concept of multiple foci of identification in order to develop a richer conceptualization of how different foci influence the fulfillment of consumers’ needs and subsequent behaviors. A needs-centered approach is taken in understanding the process of identification. Specifically, identification is cast as a mediator of a needs-satisfaction process; that is, cognitive or emotive needs (or a combination) towards which consumers are strongly orientated can be satisfied or fulfilled through identification with marketplace entities or objects such as brands, retailers, and other like-minded consumers. Firstly, it is argued that consumers’ cognitive and emotive need orientations prompt consumers to identify with multiple foci. Secondly, the primacy of different foci of identification can help to fulfill specific consumer needs (e.g., functionality, individuality, achievement), and multi-foci identification is likely to result in the satisfaction of multiple needs. Lastly, the satisfaction of various consumer needs, through a process of multi-foci identification, can prompt relational consumer behaviors (i.e., stronger pro-social and relational behavioral outcomes such as loyalty, advocacy, and defense).

The emergent framework that the authors advance in this paper offers a number of potential contributions to identification theory and to theories of consumer relationship marketing. The framework shows how individual consumers’ different needs orientations initiate an identification-mediated process that can ultimately explain consumers’ marketplace behaviors in support of particular brands, retailers, products, or other relevant entities. What emerges from this framework is a multi-layered set of “corridors” to different behavioral outcomes (i.e., low, moderate, and high relational outcomes). Combinations of different foci of identification, based on the extent of multi-foci identification and the compatibility of those foci, are central to this process. The strongest relational outcomes are posited to be most likely to eventuate when consumers’ cognitive and multiple emotive needs are satisfied through identification with multiple compatible marketplace foci.

The main implication of this paper is that identification with multiple marketplace entities (e.g., companies, brands) is cast as a means for consumers to satisfy multiple cognitive and emotive needs through consumption experiences. This, in turn, helps to explain the relational bonds that can potentially develop between consumers and, for instance, brands and the subsequent supportive behaviors displayed by consumers in the marketplace. An advance on extant literature offered by this paper is the notion of considering multiple foci of identification, and considering how they combine in a needs-satisfaction process to explain differing levels of consumer relational behaviors. This paper and its conceptualizations also have implications for marketing practice. Marketers can shape multiple foci of identification that their target customers confront. Instead of attempting to “break-through” mar-
ketplace noise and having target consumers focus on a particular object; marketers can embrace the multiple stimuli to which their targets are exposed for possible strategic gain. Compatible foci can be emphasized to foster secondary bonds of identification, in addition to a primary identification. The framework suggests that when consumers identify with multiple compatible foci simultaneously, multiple needs will be satisfied, which in turn leads to more supportive marketplace behaviors. This would help to develop closer, more sustainable customer relationships, which can become strategic relational resources and potential sources of competitive advantage. References available upon request.

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SUMMARY

The purpose of the paper is to test a theoretically grounded and psychometrically stable four-dimensional INDCOL Horizontal/Vertical Individualism/Collectivism scale (Singelis et al. 1995) for use in cross-cultural research. Since 1980, when Hofstede first measured the dimensions of individualism and collectivism across cultures, the original two-dimensional scale has been a successful predictor of behavioral patterns (Triandis and Gelfand 1998; Wheeler, Reis, and Bond 1989) and is now considered fundamental to the understanding of cultural values (Triandis 2004; Triandis, Brislin, and Hui 1988).

However, Triandis and his colleagues (1995; Triandis and Gelfand 1998) suggested that the dichotomy was too simplistic to account for personal differences within members of individualist and collectivist cultures, and proposed a four-box matrix including horizontal and vertical measurement of social relationships at the individual level to enlarge the original dichotomy by incorporating four orientations: Horizontal Individualism (HI), Vertical Individualism (VI), Horizontal Collectivism (HC), and Vertical Collectivism (VC) (Triandis and Gelfand 1998; Singelis et al. 1995).

Despite the potential usefulness of this construct, the measurement of the 32-item four-dimensional scale (Singelis et al. 1995) has been problematic. Insofar as researchers found it difficult to extract unidimensional scales with all items loading on the posited dimensions, various items have been arbitrarily eliminated in various studies. Thus, the scale’s dimensionality is questionable, and the derivation of four factor models that fit well has not been successful.

In order to extract the theoretically posited unidimensional scales and demonstrate metric equivalence of the dimensions across four countries, we conducted five studies in four countries – China, Denmark, India, and the U.S. – that vary along horizontal/vertical and individualist/collectivist dimensions. The paper presents the examination and reduction of the unstable 32-item scale, and proposes a reduced 14-item version. Findings indicate that the reduced 14-item scale is a valid measure of cultural orientations in the four countries. In addition, findings also suggest the rapidly changing nature of cultural values, which require further study. For example, China, historically considered a collectivist culture, scored highest on the vertical individualist cultural orientation. One possible explanation is that as the culture and media become more westernized in urban environments (Zhang and Shavitt 2003), young people, such as university students (our sample), may be turning towards individualism.

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DEMOGRAPHIC AND PSYCHOSOCIAL CORRELATES OF CONSUMER ETHNOCENTRISM: A CROSS-NATIONAL COMPARISON

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SUMMARY

Consumer ethnocentrism (CE) has inspired a growing body of literature in marketing and international business in the last two decades. Most of these studies have involved two to three country studies that reported on developed economies such as France, Germany, and the United States. In this paper, we report on the findings from our research on the demographic and psychosocial correlates of ethnocentrism in eight countries, of which seven were emerging markets, China (PRC), Kenya, Pakistan, Poland, Romania, Russia, and Turkey, and the United States. Our findings show that CE is negatively correlated with education in most cases, as we had expected. Our findings on age and gender show mixed results: in some markets the younger the consumer the more ethnocentric he is, in others the older the consumer, the more ethnocentric she is, and, there does not appear to be any correlation between the gender of the consumer and his/her degree of ethnocentrism. Hypotheses regarding positive correlations between CE and collectivism and cultural similarity, and negative correlations with rationalism and self-expressive societal values were supported to some degree, as were the general psychometric properties of the Consumer Ethnocentrism Scale, the CETSCALE. Based on these findings, we conclude that a deeper understanding of the underlying dimensions of the CE construct as a measure of cross-national consumer behavior, and its interactions with other psychosocial constructs in affecting purchase behavior is needed. We suggest that the theory of cosmopolitan consumer behavior might provide one such avenue of inquiry.

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This paper examines cultural differences in brand personality in three countries (Singapore, the U.K., and Austria). The study uses Hofstede’s theory to discuss the importance of culture and Jennifer Aaker’s brand personality dimensions. The main research question looks at the extent to which culture affects the perception of a brand in different countries. The objective of this research is to analyze the impact of cultural differences, measured with Hofstede’s cultural dimensions, on brand personality. A particularly interesting topic here looks at the differences between different involvement groups. The paper focuses on the energy drink brand Red Bull.

Keywords: Brand personality, cultural differences.

INTRODUCTION

New products from various companies in many different countries are introduced to virtually all of the world’s markets almost on a daily basis. For the companies producing these products and who want to be successful, it is becoming more and more important to stand out from their competitors, who are constantly increasing in number as a result of globalization. This differentiation is frequently made by using brand names that not only have a consumer value, but also an ideological or symbolic value, thus allowing the consumer of the particular brand to identify with it.

In this situation, it is important for global companies to create a global brand – a brand whose positioning, advertising strategy, personality, look, and feel are the same in most respects in the different countries, although they are not absolutely identical from one country to another (Aaker and Joachimsthaler 1999). Here, a few questions emerge relating to the extent to which the look and feel differ, how this is perceived, and the extent to which the cultural background influences the difference in perception?

This question how the brand is perceived is particularly significant because it also determines the success of a brand in a particular country or cultural sphere (Eckhardt and Houston 2002). Despite the importance of this influence, relatively little is known about the process by which the culture affects attitude and behavior (Aaker and Maheswaran 1997).

The present paper deals with the question of how far cultural differences influence perception, as expressed by frequency of consumption. Furthermore, this paper should establish whether there is a connection between consumption and perception of the brand personality. If this connection exists, the investigation should clarify how important it is for the frequency of consumption. Going one step further, the paper raises the question of how this connection differs in three countries selected.

The brand Red Bull was selected for this investigation because it is very well known worldwide within its target group and because the manufacturer has tried to position this brand in the same way all round the globe. The drink “Red Bull” is originally from Thailand where it was known as Krating Daeng, produced by the family Yoovidhya. Dietrich Mateschitz became aware of products, called “tonic drink” because of their popularity in Asia and founded Red Bull in 1984. He made a fine tuning of the product and developed a marketing concept to start selling the Red Bull Energy Drink on the Austrian Market in 1987. After five years, Red Bull went to its first foreign market, Hungary. Today, over a billion cans of Red Bull are consumed each year in over 100 countries around the globe. The target group of Red Bull is described as young people between 15–30 years. The Red Bull GmbH is owned by D&M GmbH (49%), the T.C. Agrotrading (49%) and Chalerm Yoovidhya (2%).

BACKGROUND LITERATURE

Brand Personality

Brand personality is a central component of brand identity (Aaker 1996) and can be defined as a unit of the human characteristics connected to a brand name (Aaker 1997). Thus, the brand personality takes on an additional function, so to speak, which allows the consumer to associate the brand, and thus the product, with human characteristics and, as a result, with a personality (Aaker 1997). As a result, choosing a brand with the “right” brand personality characteristics enables the consumer to develop a unique representation of him/herself (Austin, Siguaw, and Mattila 2003). The brand cannot act, think or
feel like a human being, but the managers marketing the brand certainly can (Fournier 1998). Since, however, human beings act in different ways as a result of their cultural background; it is all the more important to take this factor into account when building up a brand personality. Various investigations show that cultural differences can influence the way in which a brand personality is perceived (Aaker and Maheswaran 1997). Perception of the brand personality is determined by each contact with the brand, regardless of whether this is direct or indirect. The characteristic features are created by transferring personality features of the typical brand consumer to the brand itself. On top of this, it is takes on the characteristic features of the manufacturer’s management and staff. When this transfer takes place, the brand is personified and is given a kind of soul (Aaker 1997). Furthermore, this procedure transposes the characteristics of those people connected with the brand directly to the brand itself (McCracken 1989).

Cultural Differences

The relevant literature contains many definitions of culture. It is however undisputed that the culture of human beings, and thus also their behavior, influences their decisions (Hill 2002). Culture is made up of many different components, such as language, religion, values and standards (Hill 2002). These parameters influence the way in which individuals perceive different things, resulting in one of the main functions of a culture, namely the structure in which people perceive and evaluate different things (Hall 1989). Applied to marketing measures, this can mean that they are better received by the people of a particular culture if they live up to the cultural perceptions of that culture.

The following provides a synoptic presentation of the cultural dimensions according to Hofstede on which the present investigation is based:

Collectivism/Individualism

Hofstede (1980) describes this dimension as one of the core values that define the form and harmony in which an individual lives together with society. Collectivist societies have a very narrow social network, reflected in a way of life that is characterized by large families and responsibility of the individual toward the group. By contrast, individualistic societies give priority to the rights of the individual. This has a direct effect on brand management (Hofstede 1994).

Masculinity/Femininity

Hofstede distinguishes between masculine and feminine countries (1980) according to two basic issues: gender role allocation and the characteristics attributed to each sex. Societies that are ascribed a high degree of masculinity prize such values as competition, power, success, performance orientation, and income. These cultures live with very traditional male and female roles. By contrast, in feminine countries the differences between the sexes are very small. In these cultures, “female” characteristics, such as teamwork, sacrifice for others and living standards are valued.

Power Distance

Hofstede (1994) interprets this dimension mainly as a measure of how inequalities, which are present in every society, are dealt with in a particular country. In countries with a large power distance, a person’s rank and position in his professional life are more important than in countries with a small power distance. An additional characteristic of a large power distance is that this position in a person’s professional life is also transposed to the individual’s personal life.

Performance Orientation

This dimension is used as a measure of the way in which people relate to success and material things. In countries with a high performance orientation, the population lives to work and success is the only thing that counts, whereas countries with low performance orientation attach less importance to work and more to life in general. In these cultures, the people and their environment are more important than a successful professional career.

Relationship Between Attitude and Behavior

In marketing, attitude plays a special role. This is due particularly to the fact that numerous investigations have been able to confirm the effect of marketing instruments on attitude and, in addition, there is an alleged connection between attitude and behavior—the so-called attitude-behavior hypothesis. The AB-hypothesis maintains that attitude determines behavior, and thus that purchase probability depends on a positive attitude. The behavior prediction provided by this model can, however, be strengthened by additional factors, such as social and personal standards, as well as habits (Petty et al. 1991).

Two models on this subject are generally known. The first is the “Theory of reasoned action,” established by Ajzen and Fishbein (1980), which assumes that individuals consider the consequences of their actions before taking a decision. The intention to implement an action or not is based in this case on the attitudes of the individual towards this action and his/her conceptions of prevailing standards. This theory has proved highly successful to
date when applied to a wide spectrum of different behavior patterns. (Petty et al. 1991) In 1991, Ajzen expanded this theory to include the "perceived behavioral control" factor.

The second theory recognized in the relevant literature is Fazio’s “Theory of reasoned action” (1986). Fazio alleges that the greater part of behavior is spontaneous and that attitude guides behavior in an automatic process. Fazio argues that this occurs in particular under two specific sets of circumstances (Berger and Mitchell 1989). Firstly, if the attitude is accepted spontaneously thanks to the sheer presence of the object of the attitude (Fazio, Powell, and Williams 1989). Secondly, if perception of the object under consideration is changed for the better or the worse and thus, the qualities of the object emerge accordingly. (Petty et al. 1991)

**RESEARCH QUESTIONS AND PROPOSITIONS**

The literature presented above deals with the subjects of brand personality, cultural differences, and the relationship between attitude and behavior. Building on this, the first two propositions should investigate whether there are differences between the individual consumer groups, both in their perception of the Red Bull brand personality, and on the cultural level.

H1: Differences can be discerned in the cultural attitude between individual groups of Red Bull consumers.

H2: Differences can be discerned in the perception of Red Bull’s brand personality between individual consumer groups although the brand was positioned identically in the individual markets by the manufacturer.

Based on the assumption that the hypotheses H1 and H2 are confirmed and there are differences between the consumer groups, the present investigation analyses whether the attitude towards a brand has any influence on behavior and on the amount consumed.

H3: There is a connection between the perception of a brand personality and the amount consumed. This connection contributes towards explaining perception of the brand personality.

In this relationship it is also interesting to establish the extent to which there is a connection between the amount consumed and the differences in the cultural perception of the various consumer groups.

H4: There is a connection between cultural perception and the amount consumed. This connection contributes to explaining perception of the brand personality.

Another question that arises is whether there are differences in consumption in an inter-cultural comparison and whether these differences can be explained by the attitude towards a brand.

H5: As part of the inter-cultural comparison, it is possible to identify differences in consumption behavior that have an influence on perception of the brand personality.

### TABLE 1
**Hofstede’s Cultural Dimensions**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individualism</td>
<td>narrow social network, responsibility for the group</td>
<td>priority to the rights of the individual</td>
</tr>
<tr>
<td></td>
<td>differences between the sexes are very small,</td>
<td></td>
</tr>
<tr>
<td>Masculinity</td>
<td>high value of “female” characteristics values like teamwork</td>
<td>very traditional male and female roles</td>
</tr>
<tr>
<td>Power Distance</td>
<td>Professional rank and position are not so important</td>
<td>Professional rank and position have an impact on private life</td>
</tr>
<tr>
<td>Performance Orientation</td>
<td>People work to live</td>
<td>People live to work</td>
</tr>
</tbody>
</table>
METHODOLOGY AND RESULTS

Data Collection and Sample Characteristics

The data on which the analysis is based was gathered in a written questionnaire. The questionnaire largely contained questions relating to Red Bull and to the cultural background. The items were arranged in the same order in all three countries and also contained the same design. In order to guarantee comparability, the questions were all translated into the target language and then translated back into the source language. Since teenagers and students form the main target group for Red Bull, the questionnaire was only directed to people in the 16–35 age group. To ensure that the investigation would provide sound data, the people surveyed were asked first of all in a filter question whether they are familiar with the energy drink referred to in the questionnaire and how often they buy it. Almost everyone asked in all three countries was familiar with Red Bull. The only substantial differences were in the average amount consumed. An overview of the demographic structure of the random samples is provided in Table 1.

Results

As far as the cultural background of the individual countries is concerned, clear differences certainly became

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Demographic Data on the People Surveyed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.K.</td>
</tr>
<tr>
<td>Number of people surveyed</td>
<td>172</td>
</tr>
<tr>
<td>Percentage of men</td>
<td>48.3%</td>
</tr>
<tr>
<td>Percentage of women</td>
<td>51.7%</td>
</tr>
<tr>
<td>Average age</td>
<td>20.5 years</td>
</tr>
<tr>
<td>Degree of familiarity with Red Bull</td>
<td>99%</td>
</tr>
<tr>
<td>Average consumption of Red Bull over a 2-week period</td>
<td>0.45 l</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 3</th>
<th>Comparison of Countries in Terms of Cultural Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.K. mean (s.d.) (α)</td>
</tr>
<tr>
<td>Individualism</td>
<td>2.23 (0.852) (0.357)</td>
</tr>
<tr>
<td>Collectivism</td>
<td>4.12 (0.856) (0.357)</td>
</tr>
<tr>
<td>Power distance</td>
<td>5.17 (1.344) (0.637)</td>
</tr>
<tr>
<td>Masculinity/Femininity</td>
<td>2.87 (1.062) (0.339)</td>
</tr>
<tr>
<td>Performance Orientation</td>
<td>3.52 (1.041) (0.437)</td>
</tr>
</tbody>
</table>

(Scale: 1 = strongly agree, 7 = strongly disagree/a … Cronbach’s Alpha standardized)

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Comparison of Countries in Terms of the Brand Personality Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.K. mean (s.d.) (α)</td>
</tr>
<tr>
<td>Excitement</td>
<td>3.26 (0.799) (0.762)</td>
</tr>
<tr>
<td>Sincerity</td>
<td>4.76 (0.748) (0.725)</td>
</tr>
<tr>
<td>Competence</td>
<td>3.98 (0.761) (0.598)</td>
</tr>
<tr>
<td>Sophistication</td>
<td>4.76 (0.949) (0.706)</td>
</tr>
<tr>
<td>Ruggedness</td>
<td>3.77 (0.939) (0.580)</td>
</tr>
</tbody>
</table>

(Scale: 1 = strongly agree, 7 = strongly disagree/a … Cronbach’s Alpha standardized)
apparent in the course of the present investigation (see Table 2). Particular attention should be paid in this connection to the differences in terms of the cultural dimensions masculinity/femininity (U.K. vs. Singapore and Austria), individualism (Austria vs. U.K. and Singapore) and power distance (U.K. vs. Singapore and Austria).

The evaluations conducted on perception of the brand personality dimension of excitement yielded considerable differences between the three countries under investigation. Red Bull was connected most with the excitement dimension in Austria, while Singapore showed the least approval of this dimension (see Table 3).

The analyses show that there are considerable differences between the consumer groups in terms of their attitude towards the brand personality, as well as in the cultural dimensions. These differences also become apparent in a comparison of the three countries. Here, only a few cases show similar values in the countries under comparison.

<table>
<thead>
<tr>
<th><strong>TABLE 5</strong> Comparison of Countries, Divided in Consumption Groups, in Terms of Brand Personality and Cultural Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.K.</strong></td>
</tr>
<tr>
<td><strong>Consumer</strong></td>
</tr>
<tr>
<td><strong>mean (s.d.)</strong></td>
</tr>
<tr>
<td><strong>Excitement</strong></td>
</tr>
<tr>
<td><strong>Sincerity</strong></td>
</tr>
<tr>
<td><strong>Competence</strong></td>
</tr>
<tr>
<td><strong>Sophistication</strong></td>
</tr>
<tr>
<td><strong>Ruggedness</strong></td>
</tr>
<tr>
<td><strong>Performance Orientation</strong></td>
</tr>
<tr>
<td><strong>Individualism</strong></td>
</tr>
<tr>
<td><strong>Collectivism</strong></td>
</tr>
<tr>
<td><strong>Power distance</strong></td>
</tr>
<tr>
<td><strong>Masculinity/Femininity</strong></td>
</tr>
</tbody>
</table>

(Scale: 1 = strongly agree, 7 = strongly disagree)

<table>
<thead>
<tr>
<th><strong>TABLE 6</strong> Results of the Significance-Test of the Mean Values (Consumer vs. Non-Consumer)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.K.</strong></td>
</tr>
<tr>
<td><strong>Excitement</strong></td>
</tr>
<tr>
<td><strong>Sincerity</strong></td>
</tr>
<tr>
<td><strong>Competence</strong></td>
</tr>
<tr>
<td><strong>Sophistication</strong></td>
</tr>
<tr>
<td><strong>Ruggedness</strong></td>
</tr>
<tr>
<td><strong>Individualism</strong></td>
</tr>
<tr>
<td><strong>Collectivism</strong></td>
</tr>
<tr>
<td><strong>Power distance</strong></td>
</tr>
<tr>
<td><strong>Masculinity/Femininity</strong></td>
</tr>
<tr>
<td><strong>Performance Orientation</strong></td>
</tr>
</tbody>
</table>

(t-test) (*** significant on the 0.1 percent level/** significant on the 1 percent level/ * significant on the 5 percent level/n.s. not significant)
FIGURE 1
Discriminant Analysis of the Brand Personality Dimensions (Values for U.K./Austria)

- Excitement: 0.333/0.455
- Sincerity: -0.163/0.620
- Competence: 0.864/-0.311
- Sophistication: 0.280/0.346
- Reggedness: -0.508/-0.007

FIGURE 2
Discriminant Analysis of the Cultural Dimensions (Values for U.K./Austria)

- Power Orientation: -0.387/0.688
- Power Distance: -0.204/0.044
- Individualism: -0.305/-0.025
- Collectivism: 0.371/0.326
- Masculinity: 0.860/0.559
The discriminant analysis shows a significant result for the U.K. (at a level of 0.1% for the cultural dimensions and at a level of 5% for the brand personality dimensions) and Austria (at a level of 1% for the cultural dimensions and at a 5% level for the brand personality dimensions). The analysis for Singapore is not significant.

The analysis for the U.K. shows that there are significant differences between the two groups, both in terms of brand personality dimensions and in the cultural dimensions. Even the analysis for Austria shows a significant difference here.

**DISCUSSION, IMPLICATIONS, AND LIMITATIONS**

The differences in cultural perception by different consumer groups are easily discernible if we compare the average values. In the U.K., the dimensions collectivism and power orientation differ significantly, whereas a review of the results for Singapore show that only masculinity is a distinguishing factor. On the other hand, the consumer groups in Austria show significant differences in all five dimensions. The greatest difference is shown in the masculinity dimension. Overall, the results can certainly be considered as confirmation of Proposition 1 in Austria and the U.K.

If we look at the results for Proposition 2, the picture is similar. In all three countries there are relatively large differences between the consumer groups, most of which are significant (see Tables 4 and 5). In the U.K., the results show significant differences in the dimensions excitement, competence and sophistication. The least significance is found in Singapore, where only the sophistication dimension shows significant differences. In Austria, on the other hand, all of the consumer groups differ significantly from one another in all cultural dimensions. Thus, we can conclude that the consumers in Austria differ significantly from those that do not drink Red Bull. This is particularly apparent in terms of the excitement and sophistication dimensions. The smallest difference in perception in Austria was found in the ruggedness dimension, although the difference here is also relatively large and thus, significant. As a result, Proposition 2 can be considered confirmed, at least for the U.K. and Austria.

Proposition 3 deals with the connection between the dimensions brand personality and amount consumed. In the U.K., the competence dimension contributes very much to explaining the differences. This can be taken as a sign of the significance of this characteristic for people who drink Red Bull. The excitement and sophistication dimensions also have a positive influence. It is interesting to note here that the two dimensions competence and excitement have been pushed considerably in Red Bull advertising campaigns and seem to appeal particularly to the U.K. public. The other dimensions – sincerity and ruggedness – have a negative influence. In Austria, the sincerity variable creates the wide gap between groups. The excitement and sophistication dimensions also have a positive effect in distinguishing the two groups. The variable competence has a highly negative influence, whereas ruggedness is almost neutral Overall, the picture obtained shows that Proposition 3 applies to Austria and the U.K.

Proposition 4 concentrates on the cultural dimensions and their contribution to perception of brand personality. In the U.K., the collectivism dimension makes the largest contribution towards distinguishing between the two groups. This is particularly interesting if we consider that Hofstede defined the U.K. as a rather individualistic country. The individualism dimension, however, has the most negative influence. A substantial positive effect was demonstrated, however, in the dimension power orientation, while power distance and masculinity have a negative effect. In Austria, power orientation makes the largest contribution, closely followed by masculinity. Here, too, there is an interesting parallel to Hofstede’s results, where Austria is one of the masculine countries. The distinction between the two groups in Austria only suffers negative influence from individualism. Thus, we can also state here that Proposition 4 can be rated as correct for Austria and the U.K.

Propositions 3 and 4 can not be confirmed for Singapore because the results of the discriminant analysis were not significant.

The inter-cultural comparison between the countries also yields interesting results. The excitement dimension has a positive influence in Austria, both among Red Bull drinkers and non-Red Bull drinkers, while in Singapore, the influence of this variable has an almost negative influence. For these dimensions, the U.K. rates between the other two countries. There is very little difference in the sophistication dimension among non-Red Bull drinkers in the various countries. Among those who drink Red Bull, however, this dimension has a much more positive influence in Austria and Singapore than in the U.K.

In view of the relatively small random sample size in each case and the limited number of countries on which the present investigation was based, the results can, of course, only be applied generally to a limited extent. It would thus be wise to conduct a more extensive investigation on this topic, both in terms of the size of the random samples taken in each case and also in terms of the countries covered by the investigation, in order to obtain generally applicable answers to the question of cultural influence on the perception of brand personality. Other
topics, which should be raised in a more detailed study and which would be of great value for a general application, are the questions of moderating effects and the use of other multivariate techniques. Another possible amplification could be a more extensive sample in terms of brands.

ENDNOTE

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MARKET ORIENTATION FOR RADICAL INNOVATIONS: A NEW STRATEGIC VIEW AND ITS IMPLEMENTATION APPROACH

Shu-Yuan Wu, University College Dublin, Ireland

SUMMARY

The concept of marketing is to identify and satisfy the needs of customers (Kotler 1997), so the implementation of marketing concept, market orientation (MO), is customer focused learning. Kohli and Jawarski (1990) construct MO as the generation and dissemination of market intelligence and the firm response to it. Literally, innovation means introducing something new (into a market), so the process of innovation, radical or incremental, is a market oriented learning process, during which the firm learns about the customer need(s) to orient the development of technology into technical solution(s) that may succeed in the market.

In response to the criticism of marketing theory and practice as powerless in relation to radical innovation, marketing researchers have carried out theoretical and empirical studies to show the effect of MO on new product innovativeness and success. However, to answer the challenge directly, we need to show why and how, not just whether, marketing and MO lead to the success of radical innovation as firm performance. The current study argues that the issue in question is more than one of misinterpretation or empirical support, but is one of strategy. Also, a different MO learning process is developed for the implementation of the new marketing strategy for radical innovation.

The strategic view of innovation in current marketing theory has its origins in industrial organization economics. In this view, profit comes from market power in a given market, while successful innovation makes the firm prominent in the product group level, giving rise to competitive advantage. The learning process, as the implementation of this strategy is as follows: First, a firm defines its business in terms of the market. Then, by targeting and differentiation, it identifies the specific customer need within the defined market. In the third stage, the firm mobilizes its resources in innovating to satisfy the identified need. This approach emphasizes that the firm monitor customers for changing needs and competitors for changing products in order to maintain its competitive position. This usually takes place within the already-defined market and the bias towards “incumbents” who response to radical change in the given market rather than “attackers” aiming at changing the world has been pervasive.

Since radical innovation creates its market by conceiving a discontinuity of customer perceived value, a new strategic view of innovation is required to overcome the constraint of a defined business and market. Drawn from evolutionary economics theory (Penrose 1959; Schumpeter 1934; Foss 2000; Cantwell and Fai 1999), this view understands innovation as a cognitive process that generates customer values in the firm’s fields of operations not limited to a given market. The firm does not necessarily aim for monopoly in any one market. Rather, profitability and prosperity in a changing world result from wealth production activities in various market territories, and the firm grows, with its resources and capabilities developing, through experiencing the world. The major challenge for a firm that wishes to create radically new values and develop new markets is to alter its worldview. In this sense, it is necessary to revise the MO learning process. Lynn, Morone, and Paulson (1996) observe that marketing for radical innovations is different from that for incremental innovations in that it is a “probe and learning” process. The current study builds onto this theory by identifying a proactive “search” stage for the firm to make the decision on which market domain it will go to for “probe and learning.” Figure 1 illustrates how this process would be implemented.

Along the process, strategic and environmental factors influence the running of the learning process and thus the performance. Listed as follows are propositions about
the effect of these factors:

At the search stage,

Proposition 1. The strength of the firm’s belief in its identified technology core influences positively the activeness of search.

Proposition 2. The activeness of the search affects positively the likelihood of identifying the potential market.

Proposition 3. The ambition for growth and/or a perceived threat of unfavorable market change positively influences the activeness of search.

Proposition 4. The more channels for information and inspiration the firm can find and build, the better the chance for it to see the possible need(s).

Proposition 5. The possession of the channels for communication is a positive function of the firm’s stock of prior knowledge.

At the adaptation stage,

For customer perceived value creation in the tentatively identified potential market-

Proposition 6. The performance of value creation is a function of willingness and ability to learn.

Proposition 7. The willingness to learn about the potential market is a function of the perception of cost and risk.

Proposition 8. The ability to learn is a function of the strength of MO culture, financial resource, and absorptive capacity.

Environmental, or adopters’ side factors, e.g., industrial stability and perception of knowledge distance, influence the likelihood of the success of the creation of customer perceived value-

Proposition 9. Industrial stability of the adopter side influences negatively the likelihood of the creation of customer perceived value.

Proposition 10. The perception of knowledge distance between the technology core and potential customer’s technology system influences negatively the likelihood of success.

For future research, system dynamics modeling method will be used to simulate the process. Literatures and constructs of the variables are available on request.

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A SCALE FOR MEASURING MARKET-DRIVING BEHAVIOR

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Shikhar Sarin, Boise State University, Boise
Ajay Kohli, Emory University, Atlanta

SUMMARY

Several scholars have proposed that market-driving behavior is one way for firms to achieve a competitive advantage (e.g., Jaworski, Kohli, and Sahay 2000; Kumar, Scheer, and Kotler 2000). The construct primarily has been discussed at a conceptual level (e.g., Jaworski, Kohli, and Sahay 2000; Kumar, Scheer, and Kotler 2000; Hills and Sarin 2003). The purpose of the present research is to develop a measure of market-driving behaviors, and assess its properties.

Market-driving behavior is conceptualized as behavior of a firm that attempts to change the structure, activities and/or beliefs of market participants (that include customers, competitors, channel members, and market regulators). We utilize scale development processes suggested in the literature for this research (e.g., Churchill 1979; Venkatraman 1989; Kohli, Jaworski, and Kumar 1993).

First, the domain of the construct and its dimensions were specified through a review of the literature in marketing and management. A pool of potential scale items was generated through a review of related scales, as well as from qualitative interviews conducted with marketing and management faculty. The scale items were pre-tested with both academics and practitioners to identify ambiguities and other difficulties. The resulting 13-item scale was then administered to a sample of key informants at firms in a variety of high technology industries.

The key informant data were analyzed in several stages. First, a factor analysis was conducted to identify possible factor structures for the items, and scale reliability was assessed. The factor structure was then evaluated by comparing its fit to alternative models using confirmatory factor analysis. Finally, tests for convergent and discriminant validity were performed. The results support a four-factor model comprising customer, competitor, channel and regulator-driving behaviors. Potential applications of the measure and directions for future research are discussed.

REFERENCES


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MARKET ORIENTATION AND DRIVING MARKETS VS. MARKET DRIVEN INNOVATIONS

Jenny Darroch, Claremont Graduate University, Claremont

SUMMARY

The marketing concept, and the market orientation – an operationalization of the marketing concept, (see Kohli and Jaworski 1990; Narver and Slater 1990) has been criticized for a variety of reasons. The main criticism, relevant to this paper, is that consumers do not always know what they need and want. So, by implication, a firm with a market orientation is more likely to launch market driven products that offer only minor changes to current market offerings. Such a firm is less likely to launch new products that drive markets simply because the needs and wants for products that drive markets are hard to define (Bennett and Cooper 1979). Thus, the central question arising from this discussion is whether a market orientation leads to both market driven and driving markets innovations? In 1993, Jaworski and Kohli suggested that there must be a logical link between a market orientation and innovation since a market orientation involves doing something new or different in response to market conditions. In spite of this obvious connection, there have only been a small number of empirical studies examining this link, and in most cases, innovation is usually measured superficially: for example, by noting whether the firm developed successful innovations or emphasized new product development as a consequence of following a market orientation. Only a small number of studies have considered degrees of innovation, such as radical versus incremental innovation. Against this backdrop, the following hypotheses are offered:

H1: A market orientation has a positive effect on both market driven and driving markets innovations.

H2: A market orientation will have a stronger positive effect on market driven innovations than driving markets innovations.

Sample and Measures

Firms with 11 or more employees that had been in business for five or more years were chosen. During the first wave, 2,500 respondent firms were randomly selected, the most senior person in each organization identified (e.g., the Chief Executive Officer), and a letter and questionnaire posted to him/her. The response rate was 22.06 percent. Sample checks identified a slight skew toward larger firms. There was no non-response bias. The Kohli et al. (1993) market orientation scale was used and new innovation measures were developed to reflect market driven and driving markets innovations. Controls were included for firm size, industry, product obsolescence in the industry, changing consumer tastes and preferences, rapid technological change in the industry and competitor hostility.

Results, Discussion, and Conclusions

Analysis was conducted using OLS. The results showed that two components of a market orientation (information generation and dissemination) had a positive and statistically significant effect on all types of innovation. The results for responsiveness were mixed. Being responsive to the market had no statistically significant impact on driving markets innovation. However, being responsive to the market had a positive effect on market driven innovations. Therefore, H1 was supported for market driven innovations but only partially supported for driving markets innovations. H2 was supported since a market orientation explained 6 percent – 10 percent more of market driven innovations than driving markets innovations. The results are consistent with Jaworski et al. (2000) who assert that a firm with a market orientation will work with current market conditions and also proactively shape future markets in order to provide future opportunities. Much has been written about staying close to customers. This research clearly shows that no matter what type of innovation a firm pursues, managers need to have a clear and deep understanding of customer needs and wants and broader market conditions that may impact upon current and future customers. Similarly, the whole organization needs to be made aware of market intelligence that might impact upon the business.

REFERENCES


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RELATIONSHIP CONTINUITY IN EXPORT CHANNELS: 
THE IMPLICATIONS OF SOCIAL CAPITAL 
AND RESOURCE EXCHANGE

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SUMMARY

This study adopts a distributor perspective to examine the effects of social capital and resource exchange on performance and relationship continuity in international channels of distribution. Internationalization theories suggest that exporters often rely on independent distributors when entering new foreign markets due to the exporters’ lack of knowledge and experience. The foreign market distributor is, thus, an important source of information about international market conditions and may fulfill many auxiliary, yet critical functions in supplying customers in the export market.

Despite the value provided by distributors, evidence regarding the long-term viability of non-integrated export channels is not encouraging. Increasing knowledge and familiarity with the foreign market has been associated with the likelihood that exporters will terminate relationships with independent distributors. Indeed, researchers are beginning to caution that firms must be judicious in their exchange of resources, lest a firm risk inadvertently losing the very resources that provide its basis for competitive advantage.

Particularly from a foreign distributor perspective, providing the exporter with too much knowledge or direct access to foreign market customers and related resources may have potentially detrimental consequences, especially with respect to relationship continuity. An important question is, to what extent does exchange of resources between distributors and exporters promote channel stability and continuity of the relationship? An important question is, to what extent does exchange of resources between distributors and exporters promote channel stability and continuity of the relationship? Alternatively, to what extent might such exchange place the foreign distributor at risk of displacement? The present research examines whether and how the social capital benefit of resource exchange contributes to relationship continuity and other aspects of performance between foreign distributors and exporters in international channels of distribution. Resource exchange between distributors and exporters is therefore investigated for both its positive and negative implications for channel relationship continuity.

Social capital theory is employed to investigate antecedents and consequences of resource exchange. Social capital is broadly conceptualized as the value that actors derive from their ties to other actors in a network. At the firm level, social capital theory contends that firms create competitive advantage via the combination of new and existing knowledge by harnessing the value of their relationships with other firms. High quality inter-firm relationships offer significant social capital benefits in the form of information, knowledge and other resource exchanges.

One of the primary social capital benefits mentioned by researchers is access to resources. Despite the social capital benefits of resource exchange between exporters and distributors, downside risks must also be accounted for. The greatest potential risk comes from the loss of proprietary knowledge, and the resulting loss of a distributor’s competitive advantage when their channel partner acquires or internalizes the requisite knowledge and skills needed to serve the export market. In such a case, an exporter’s acquisition of foreign market and customer information may result in identification of a more suitable distributor, or replace the need for a distribution partner altogether.

A conceptual model is developed that relates relational social capital, manifested in the level of trust and communication between channel partners, with resource exchange between distributors and exporters. Resource exchange, in turn, is posited to have differential influences on the channel outcomes of performance and relationship continuity. Structural social capital, evidenced by the brokerage role that distributors provide on behalf of exporters with foreign market constituents, is posited to have direct and moderating influences on channel outcomes. National culture is examined for its moderating effects on the primary relationships.

The model thus examines how social capital impacts the continuity and performance of exporter-distributor relationships, incorporating both potential positive and negative consequences. Tests of the research propositions herein will not only provide insight into the critical role of the distributor in managing resource exchange within international channel relationships, but will also provide guidelines as to how independent distributors may maintain an enduring presence in the channel structure. Implications for social capital theory are also discussed.
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RELATIONAL EQUITY: THE CONSTRUCT, ANTECEDENTS, AND IMPACT ON FIRM PERFORMANCE

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SUMMARY

The contemporary business environment has elevated the importance of intangible firm assets as a sustainable firm advantage. Relational equity is now recognized by practitioners and scholars alike as a key market-based asset. The present study makes a modest attempt at developing a framework for studying relational assets. It defines relational equity as a type of social capital associated with individual firms and resulting from their partnering relationships. We delineate proposed antecedents and consequences of RE. Relational equity impacts a firm’s performance, which is observed via traditional measures such as profits, growth, and market share.

Intimate relationships with key stakeholders offer substantial and enduring advantages to the firm. We focus on one of the intermediate marketing outcomes, relational equity, (RE). Briefly, RE refers to rent-generating qualities of inter-firm relationships. It is a specific type of social capital that results from concrete business relationships. While scholars have already explored other types of firm equities such as customer equity or brand equity, the nature of relational equity remains more ambiguous.

Scholarly works specifically focusing on relational equity (RE) are limited. Key contributors include: Kale, Singh and Perlmutter (AMJ, 2000), Grewal (JM, 2004), Sawhney and Zabin (JAMS, 2002), Gummesson (2004), Hogan (2001), and Hogan and Armstrong (2001). These scholarly treatments of relational assets allow us to make a number of conclusions. First, it is clear that relational assets gain special significance in the context of business-to-business marketing. Second, RE is most meaningful as an asset that accumulates over time. Third, RE is the result of deliberate efforts by the partners in a relationship. Fourth, as an unobservable construct, RE cannot be captured directly but indirectly through its effects on relational outcomes. Finally, some authors view customer equity as a special case of RE. Our own perspective is that assets tied to relational partners such as suppliers, distributors, and alliance partners deserve special attention.

We define relational equity as a type of social capital that results from continuous, synergistic, and future-oriented business partnerships. RE refers to an intangible asset that can be deployed by each partner to extract benefits or rents from the other party. As is the case with other forms of capital, RE is productive, making it possible for the partners to achieve certain ends that in its absence would not be possible (Coleman 1988). RE just does not happen but it is earned over time by deliberate, collaborative actions of the partners. RE is an asset owned by the parties to a relationship. As Burt (Burt 1992) observed in the context of social capital, no one player has exclusive ownership rights.

Relational equity can be captured at both the single relationship level, as well as across all key partners of the firm. The former represents social capital that accumulates with a single partner; the latter considers the sum total of social capital the firm acquires. The latter conceptualization coincides with the generally accepted view of customer equity as the sum total of the customer lifetime value across all customers.

In a partner-to-partner interaction, the existence of RE implies an ability to: minimize transaction costs; discourage opportunism; facilitate conflict resolution; and achieve other goals. At the same time, the ownership of RE bestows the firm with an enduring competitive advantage vis a vis its rivals. Indeed, RE benefits can be felt at three levels. Unilateral benefits refer to those accruing in the specific partner-to-partner interface. Bilateral benefits accrue to their joint network. Extra-network benefits are derived from their association outside of the network when one of the partners competes with its rivals.

Relational equity produces outcomes that are viewed as intermediate, relational metrics such as partner loyalty, reduced friction, reduced opportunism, network reputation, and initiation of new collaborative ventures. These intermediate, function-specific outcomes are then expected to lead to more traditional forms of shareholder performance such as profits, market share, and growth. What is more critical, however, is to investigate the role of relational equity as a bridging variable. In other words, we anticipate certain marketing efforts/organizations produce RE which, in turn, leads to relational outcomes. These relational outcomes then pave the way for enhanced firm performance.

RE produces some relational outcomes which should be distinguished from more conventional forms of firm-level performance such as profitability, market share, and firm growth. Relational outcomes include: optimized transaction costs; partner satisfaction, enhanced commitment, and loyalty; dampened opportunism; initiation of new
collaborative ventures; network identity and reputation; and reduced cost of searching for new partners.

Clearly much more work remains in terms of advancing our knowledge of RE, how it is cultivated, how it interacts with other intangible assets of the firm, how it generates relational outcomes, how it should be measured, and its relevance in different settings (e.g., supplier vs. distributor vs. franchisor vs. customer contexts). Empirical research is needed to examine these and similar pressing issues. Researchers also require a validated scale for empirical measurement of relational equity. References are available on request.

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THE CONSEQUENCES OF FIRMS’ ANTITRUST BEHAVIORS IN MARKETING CHANNEL NETWORKS

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SUMMARY

Marketing channel networks and the governance of the multiple interfirm relationships that comprise them are an important topic in marketing channels research. In a network environment, firms are required to cope with the inherent complexity of a relationship network, and potentially face greater uncertainty and risk (cf., Jones, Hesterly, and Borgatti 1997). As competition in a network increases (in terms of both an increased number of competitors and increased opportunities for incumbent firms to compete), uncertainty and risk conditions are also likely to increase. Increased competition may be clearly favorable at a macro, or network-, level due to greater efficiency, innovation, quality, and consumer welfare. However, for individual firms, increased competition might exacerbate their strategic problems (e.g., greater uncertainty and exposure to more risk). This represents a paradoxical situation: as competition in a marketing channel network increases to the benefit of consumers and the network as a whole, individual firms may find themselves faced with greater strategic pressures.

Firms may respond through attempts to subvert market transacting and instead rely on potentially more efficient non-market forms of coordination (i.e., interfirm relationships). While non-market exchange relationships are commonplace in marketing theory and practice, and generally well-accepted, a consideration of the potential antitrust implications of these relationships is important from a public policy perspective. The promotion of market- or network-level efficiencies (through competition) might be at cross-purposes to the advancement of the performance-related goals of the firms within networks. Understanding this in channel networks is the broad objective of this paper. Specifically, an analysis of the potential for interfirm relationship network governance systems to promote possible anti-competitive behaviors is presented, and the implications of potential antitrust breaches in a channel network are considered.

A framework of different types of antitrust behaviors and their consequences for (1) the antitrust-behaving firms, (2) other affected firms, and (3) the overall channel network is presented and forms the basis of this conceptual paper. A framework of potential antitrust behaviors in channel networks is advanced, considering both vertical and horizontal exchanges, and collusion and abuse of market power behaviors. The possible implications of these behaviors are then considered. Antitrust behaviors by a group of firms in a network have positive short-term effects on their own competitiveness and efficiencies, and deleterious effects on other firms in the network. Short-term efficiency gains might be enjoyed by firms engaging in antitrust behaviors. In the medium- and long-terms these firms are faced with fewer opportunities to exchange, because the size and competitiveness of the network has been reduced by their previous antitrust behaviors. Ultimately, there are negative effects on network-level competition and on consumer welfare.

This paper should not be seen as a criticism of non-market forms of coordination. Firms recognize that non-market forms of contracting are viable, efficient, and can be effective in helping them to develop and leverage strategic resources for the benefit of various stakeholders. Hence, they are not discouraged. However, a consideration of this type of approach through an antitrust lens is useful, and might help firms better understand the mechanisms of competition in their networks. A key implication of this paper’s framework is that firms’ behaviors that might limit opportunities to compete, including limiting a firm’s own future opportunities to form relationships and develop strategic (relational) resources, should be avoided. The deleterious consequences for firms and networks outlined by this paper may be avoidable through careful consideration of the possibility for antitrust effects of strategic actions on other firms when developing cooperative strategies. Out-competing (and thus achieving competitive advantage) is appropriate and does not constitute antitrust, but competing in a manner that reduces opportunities for competition in a network may be problematic for all parties. References available upon request.

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REACTIONS TO ONLINE INTERACTIONS: CONCEPTUALIZATION AND SCALE DEVELOPMENT OF ONLINE INTERACTION PROPENSITY

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SUMMARY

Companies are using interactive electronic channels for various marketing activities, ranging from advertising, branding, and promotion to selling, service delivery and research. Various types of companies and institutions (e.g., IT companies, fast moving consumer goods companies, universities, local governments, etc.) offer online support options for their products and services, such as instant chat between customers and employees, discussion boards, and online customer communities.

The success of these interactive channels, however, partially depends on the willingness of customers to actively participate and engage in online interactions. It is a commonly observed problem that much more people “lurk” (read and silently observe) than actively participate online. The relative percentages are estimated to be as drastic as 90 percent lurkers versus 10 percent active participants (Cothrel and Williams 1999). As a result, a free-rider problem occurs since a majority of people consume content that is created by a minority. Thus, it is important for companies to understand the communication preferences of their customers in order to fully realize the commercial potential of interactive online channels. Furthermore, it is also important for online consumer behavior theory to consider the essential individual consumer differences in their predisposition to engage in online interactions and subsequently the resulting differences in online communication behavior. Surprisingly, the reasons for this behavioral difference online remain largely unexplored.

The traditional communication and psychology disciplines that deal with face-to-face communication have long recognized that individuals have different predispositions to communicate with others (e.g., Mortensen et al. 1977). In this literature, variability in communication behavior was successfully associated with personality traits, such as willingness-to-communicate (McCroskey and Richmond 1990). However, as all interaction on the Internet is mediated by technology, it is profoundly different from face-to-face communication (e.g., Hoffman and Novak 1996; Valacich et al. 1993). Online interactions are mostly asynchronous, text-based, and lack both verbal and especially non-verbal cues. In addition, due to the truly global nature of the Internet, a large percentage of online interactions occur between strangers. Many people who chat with each other have never met in person, and postings on newsgroups, discussion boards, and in online communities can have potentially global audiences. Due to these fundamental differences between offline and online communication, it is not suitable to simply transfer the offline communication traits and apply them to the online context. Rather, it seems necessary to investigate online interactions separately.

Although an impressive stream of research has investigated the interactivity of technology and of different online channels (e.g., Burgoon et al. 1999; Stevens et al. 2000), the existence of individual differences in online interaction preference has so far been overlooked. In order to close this gap in the literature, our research has two main objectives: (1) to propose and conceptualize a behavioral orientation – online interaction propensity – that captures the general tendency of an individual to engage in online interactions; and (2) to develop and empirically validate a scale for its measurement.

Based on scale development procedures recommended by Churchill (1979) and Rossiter (2002), we conducted two qualitative and three quantitative studies to establish and empirically validate a measurement instrument for online interaction propensity. In the first study, we explored the concept of online interaction propensity and generated initial scale items by means of two in-depth case studies and a literature review. In the second study, interviews with academic and business experts helped to select and refine the initial scale items. The third study quantitatively tested the factor structure of the resulting items in a survey with 287 respondents. The fourth study (n = 308) evaluated discriminant validity by assessing the online interactions propensity scale together with conceptually close constructs and response set bias. The fifth study (n = 195) established nomological validity by demonstrating the explanatory benefit of online interaction propensity for the behavior of customers in an online community setting. The details of each study and its results will be provided during the presentation. References are available upon request.
OLDER CONSUMERS, COGNITIVE AGE, AND THE LIST OF VALUES (LOV): AN EMPIRICAL STUDY

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SUMMARY

Older consumers are an increasingly important market for a variety of goods and services (Ahmad 2002; Chura 2002; Gunter 1998; Miller and Soyoung 1999). However, aging does not perfectly coincide with chronological age (Bell 1972), so despite chronological age being the most frequently used of all demographic variables to describe and segment consumer markets (Barak and Schiffman 1981), it is a poor indicator of a person’s attitudes and consumer behavior (Chua, Cote, and Leong 1990; Van Auken, Barry, and Anderson 1993). Given these limitations, researchers have turned to the concept of self-perceived, or cognitive age, as this gives a better insight into an individual’s likely consumer behavior than does chronological age alone (Barak and Schiffman 1981; Cleaver and Muller 2002; Schiffman and Sherman 1991). American and U.K. studies typically report differences between actual and cognitive age to be between 8 and 12 years (Barak 1998; Barak and Rahtz 1999; Sherman, Schiffman, and Mathur 2001; Sudbury, 2004; Sudbury, Simcock, and Wright 2004; Szmigin and Carrigan 2000), and have found cognitive age to be associated with a range of consumer behavior variables (Barak and Gould 1985; Stephens 1991; Wilkes 1992).

Values, too, influence a variety of consumer behaviors (Batra, Homer, and Kahle 2001; Goldsmith, Frieden, and Henderson 1995; Kahle 1986). However, while age differences have been identified in the importance placed on different values (Kahle, Poulos, and Sukhdial 1988; Yovovich 1983; Wolfe 1994), no research into the relationship between older adults’ cognitive age and Kahle’s (1983) List of Values (LOV) has been conducted in either the U.K. or USA. One further specific value worthy of investigation is materialism. Theory suggests that the relationship a person has with material items changes over time (Belk 1988; Richins and Dawson 1990). However, the marketing literature’s contention that as people age they become less materialistic (Haller 1995; Schiffman and Sherman 1991; Wolfe 1992) goes against much of the gerontological literature that indicates that possessions become increasingly important in later life (Moschis 1992).

Method

A self-complete questionnaire was administered to an age-quota sample of 650 U.K. adults aged 50–79. Self-perceived age was measured using the Cognitive Age scale (Barak 1979; Barak and Schiffman 1981). General values were measured using Kahle’s (1983) List of Values (LOV), which comprises sense of belonging, warm relationships with others, self-fulfillment, being well respected, fun and enjoyment of life, security, self-respect, and a sense of accomplishment, and were rated on a 9-point scale of importance. Materialism was measured using Richins and Dawson’s (1992) Material Values scale, using a 5-point Likert-type response format.

Results

Overall, the most important value was self-respect, followed by security, warm relationships with others, a sense of accomplishment, fun and enjoyment of life, self-fulfillment, sense of belonging, while being well respected was the least important. However, when results were analyzed using cognitive age groupings, a different picture emerged. Self-respect was no longer the most important value for those whose cognitive age was in the 30s or the 70s. Rather, those with the youngest cognitive ages placed the greatest importance on warm relationships, while the cognitively oldest placed greater emphasis on security. Indeed, the relative importance of warm relationships with others decreased over cognitive age decades, while the relative importance placed on security increased. Fun and enjoyment, too, showed a clear pattern, as its relative importance decreased as the cognitive age of the respondent increased.

In contrast, one-way ANOVA revealed no significant differences between either cognitive age groupings or indeed chronological age groupings and the material values scale overall. A correlation analysis found no significant relationship between material values and either age measure. Finally, analysis conducted after quartile splits confirmed there to be no significant differences between the high materialism group and the low materialism group on cognitive or chronological age.

Discussion

Just as similarities between older U.K. consumers and their American counterparts exist regarding cognitive age, so too are their central value bases broadly similar, at least in terms of the four primary values of self-respect, security, warm relationships, and a sense of accomplishment. These results suggest that positioning strategies and
advertising themes based on these values are more likely to be well received than are those that use the lower ranked values of a sense of belonging or being well respected. Interestingly, one difference to emerge between the two cultures is the importance placed on fun and enjoyment of life, which is typically ranked lower by Americans (Kahle, Poulos, and Sukhdial 1988) than it was by U.K. consumers. Thus, using this value may be a more successful strategy in the U.K. than in the U.S.

Products such as health care, insurance, and funeral plans are more likely to be targeted at the cognitively old, and security is clearly an appropriate theme for marketing such products. In contrast, the cognitively young are more likely targets for leisure products, foreign holidays, fashion, and personal grooming products. Indeed, rather than this value appealing to the hedonists, as originally thought, Kahle (1996) now suggests that the value of fun and enjoyment is chosen by people who demonstrate the highest levels of involvement with leisure activities. As such, the fun and enjoyment benefits should be emphasized in marketing and promotional campaigns for such products.

Finally, this study failed to find any support either for marketing’s suggestion that as people age they become less materialistic, or for gerontology’s assertion of an increase in materialism with age. Rather, this study found no significant relationship between material values and either chronological or cognitive age. Thus, materialism, at least as measured by the Material Values scale, appears to have less utility for marketing to older adults than does the List of Values. References available upon request.

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INNOVATIVENESS AND THE CUSTOMER: HOW DOES PERCEIVED INNOVATIVENESS AFFECT LOYALTY?

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SUMMARY

Studying innovation and innovativeness has become a research topic of high priority. Although there have been advocates for focusing on innovativeness from the customer’s perspective for a long time, the customer point of view has been largely ignored in empirical marketing research on innovativeness. Especially firm innovativeness is expected to be a cue for competitive differentiation. Therefore we address in this paper the following questions: How do customers judge the innovativeness of a firm? Does perceived innovativeness affect behavior? Are there different routes through which innovativeness affects behavior?

Framework

In this paper we define perceived innovativeness as the consumer perception of trait-like firm characteristics that result in innovative offers. A customer perceives a firm as innovative if the customer associates the firm with change, creativity and new ideas that result in new offerings, providing the customer with stimulation and surprise on a regular basis.

We present a customer-centric model, which is based on conceptual frameworks and empirical studies on the role of cognition and affect in consumer behavior. Especially we make use of hedonic and emotional theory as well as cue-utilization-theory for our conceptual model of innovativeness processing. The model relates perceived innovativeness to customer loyalty via customer oriented value and satisfaction. Recent studies recognize the multi-dimensional nature of satisfaction and suggest that customer satisfaction should include cognitive as well as emotional components. Therefore our model distinguishes between two types of satisfaction: cognitive (functional) and emotional (hedonic) satisfaction. By means of this conceptualization, perceived innovativeness is related to loyalty via two processing routes: a rational-analytical route that results in functional value, perceptions of competence and what we call “cognitive satisfaction,” and an affective-experiential route that results in positive affect and “emotional satisfaction.”

We expect satisfaction to be an important antecedent of customer loyalty. A key mediator between satisfaction and loyalty is identification with the firm. Identification provides a relational bond between the customer and the firm. Through identification, a customer is more likely to feel a sense of commitment, an enduring desire to maintain a valued relationship, and customer loyalty is defined as a customer purchase pattern over time.

Method

We developed a perceived innovativeness scale in several successive steps. First, qualitative semi-structured face-to-face interviews were conducted with consumers to determine how they view firm innovativeness. Second, based on the qualitative interviews, a questionnaire was developed and a survey was conducted to validate the results of the qualitative interviews. Based on the interviews and the survey, several key indicators of perceived innovativeness were identified and included in the perceived innovativeness scale as scale items. By means of this we developed a valid and reliable scale of firm innovativeness from a consumer perspective (perceived innovativeness). Multi-item measurements for all included constructs of our model were developed based on exploratory interviews with consumers, existing scales and construct definitions and conceptualizations.

In an empirical study with 2,044 respondents judging nine categories we validate our conceptual model using a structural equation model. The reliability measurement of the constructs indicates acceptable psychometric properties. To measure criterion validity for the perceived innovativeness scale, we applied also a MIMIC model. The proposed framework was tested by means of a LISREL analysis. The fit statistics of the framework indicate an adequate fit of the model with the data. All path coefficients are highly significant. To show the stability of the results of the maximum-likelihood-estimator, we also applied a bootstrapping analysis. All results were confirmed by the bootstrapping analysis and all hypotheses were supported.

Furthermore we identify category (goods vs. services) and individual differences (more vs. less innovative consumers and arousal seeking tendency) in processing innovativeness. Strong impacts of perceived innovativeness on customer loyalty via both routes are identified. Perceived innovativeness had a stronger effect...
on customer identification with the firm for goods than services. Perceived innovativeness also had a stronger effect on identification with the firm for more innovative than less innovative consumers, especially affectively, and for high rather than low arousal seeking consumers. Further research and management implications are given in the paper. References available upon request.

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MANAGERIAL TIES IN CHINA: WHEN DO THEY BOLSTER OR DAMAGE FIRM PERFORMANCE?

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SUMMARY

With a history of more than 5000 years, managerial ties – top manager’s boundary spanning and interpersonal connections – are central to commerce in China. Such connections are purported to help companies gain necessary resources, foster firm growth, and achieve superior performance. Consistent with this, empirical work demonstrates that managerial ties increase firm performance in China as well as other emerging economies.

Despite the general consensus of the positive effects of managerial ties, controversy exists regarding their role as emerging economies transition toward a more market-based economy. Some researchers argue that the importance of personal ties necessarily declines because ties are more suitable for small-scale, localized commerce. Others, however, counter that ties are becoming more salient during the transition. A second limitation in this literature is that while scholars and practitioners alike acknowledge the economic benefits of social ties, extant research has paid little attention to their possible negative consequences on performance.

To fill these research gaps, we examine if two key features of more complex forms of market-based economies, demand uncertainty and competitive intensity, moderate the effect of managerial ties on firm financial performance. We argue that if higher levels of uncertainty and competitive intensity decrease the effect of ties on firm performance, then, ties are less effective in coordinating more complex types of market exchanges. We also examine whether the effect of managerial ties on performance is greater for younger and more entrepreneurial firms. In addition, we explore the conditions under which managerial ties may hinder firm performance.

To test the hypotheses, we conducted a large-scale survey of manufacturing firms in three major cities in China. The results show that managerial ties fail to offer performance benefits to firms when competition becomes more intense, thus suggesting a performance limit from established ties with government officials, buyers, suppliers, and competitors. In contrast, managerial ties have a stronger effect in enhancing firm performance as uncertainty increases, signifying that ties help firms adapt to fast changing conditions. We also find that, managerial ties have a stronger impact on performance for entrepreneurial-oriented firms and for younger firms.

Overall, our results show a more nuanced approach is necessary to examine the role managerial ties plays in improving firm performance. That is, ties bolster performance under some circumstances but hinder it in other conditions. This type of reasoning is more refined than previous research, which generally advances and finds that ties enable firms to gain competitive advantage and superior performance in China. Taken together, our study provides some empirical evidence commenting on the debate, and represents the first effort to study the negative impact of managerial ties on firm performance in emerging economies. References available upon request. This research was supported by a research grant from the School of Business, The University of Hong Kong.

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WHEN DOES GUANXI MATTER? EFFECTS OF GUANXI ON MARKET EXPANSION IN A TRANSITIONAL ECONOMY

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SUMMARY

While institutions exist in all markets, China’s lack of an open economy and independent legal systems help breed a highly complex and inter-connected networks of powerful local governments (Walder 1995), privileged firms (Li 1998) and elite individuals (Walder, Li, and Treiman 2000) that are known to mutually exchange favors to one another. They are known to form capitalistic networks (Boisot and Child 1996). As identified by both academicians and practitioners, one way to navigate within this system of capitalistic networks has been through inter-personal connections, commonly known as guanxi.

Past research on guanxi has confirmed the salience of guanxi in building trust and defending against threats (Xin and Pearce 1996). Guanxi is also conceptualized as social capitals to facilitate firms in boundary expansion activities (Peng and Luo 2000). This paper attempts to extend beyond the main effects of guanxi on firm performance to delineate the conditions in which guanxi provides positive or insignificant impacts to firm expansion in the Chinese consumer product markets. In particular, the institutional and cultural roots of guanxi are discussed. Resource-based view and transaction cost analysis are integrated to postulate conditions in which guanxi operates. A survey study is also conducted to investigate how two types of guanxi (with local governments and with business partners) affect firm market share under conditions of varying degrees of local barrier and environmental uncertainty.

The strong emphasis of guanxi in China as opposed to the specification and enforcement of contracts in the West (Davies at al. 1995) has both institutional and cultural roots. Institutionally, unlike developed economies which can effectively and openly match demand and supply in the resource market and enable firms to effectively reduce risks in business transactions, China’s under-developed economic and legal systems give rise to guanxi as an alternative system in which firms obtain the needed resources and/or to reduce their business risks. Culturally, guanxi is deeply embedded in the Chinese value system, embodying moralistic codes such as preference for harmonious relations, family/group orientation, respect for authority, and long-term perspectives.

From the resource-based view, guanxi is a non-imitable asset that allows firms to gain access to other needed resources (e.g., operating license) in a changing economy like China (Peng and Heath 1996). Through these personal networks, whether the guanxi lies in with local governments or with business partners, firms would have competitive advantages over others. From the transaction cost analysis, guanxi operates as a mechanism for firms to gain information on its business partners and/or government officials that are otherwise unavailable, which leads to lower transaction cost and reduced risks.

Our hypotheses center on the link between guanxi (with local governments and with business partners) and firm market share and its interaction with environmental factors. Based on past literature, we hypothesize that firm strength in guanxi with local governments (H1a) and with business partners (H1b) exert positive effects on firm market share. The consumer market in China is often characterized as highly competitive, comprising defragmented and protected local markets, and at the same time, very sensitive to policy changes and industry dynamics. This is partly due to the transitional nature of its economy and partly because of the country’s traditionally unbalanced development and strong administrative power. We focus on two traits of the environment in our study. One is local barrier, which indicates the level of entry barrier in local markets and the relative protectionism from local forces. The other is environmental uncertainty, which captures the risks from both policy and industry levels. Because guanxi with local governments has a more sweeping effect on firm performance in consumer market, we hypothesize that the effect of guanxi with business partners on firm market share will be stronger when local barriers are high than when local barriers are low (H2) and the effect of guanxi with business partners on firm market share will be stronger when environment uncertainty is high than when environmental uncertainty is low (H3).

The study employs part of the data from a large-scale brand survey conducted in China. Out of 409 surveys obtained, missing data reduced the sample to 390 respondents in the present study. Using adapted scales for two types of guanxi and environmental factors, the measurement model performs well. Ordinary least squares are conducted to test the main and moderated effects. Results
show good supports to our hypotheses. Guanxi with local governments has a consistently positive effect on market share, supporting H1a. Though the main effect of guanxi with business partners shows no significance, closer examination of the partial derivatives also suggests a positive relationship, lending some support to H1b. Regarding the moderating effects, results show consistent support for the positive interaction effects between local barrier and business guanxi (as in H2) and between environment uncertainty and guanxi (as in H3).

Our study is a first step in delineating the boundary conditions in which guanxi operates. Future research is needed to better investigate relevant boundaries that may affect the effectiveness of guanxi. Besides examining guanxi effect in offsetting external hostility, it may be fruitful to divert attention to how guanxi affects internal capability, the process by which firms build up internal competitiveness through networking with guanxi partners. As China assumes greater importance in the global economic sphere, guanxi, the key concept to understanding Chinese behavior of doing business, deserves more academic endeavor. References are available upon request.

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AN EMPIRICAL EXAMINATION OF COMPETING TECHNOLOGY ACCEPTANCE MODELS IN THE CONTEXT OF CHINA

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SUMMARY

Multinational corporations (MNCs) are increasingly relying on technology to establish competitive postures in the global environment. As MNCs expand into new markets, their success is in part determined by their ability to effectively transfer their competitive technologies to their subsidiaries (Chen 1996; Chung 2001). Inherent in this argument is the understanding that the transference of technology includes the acceptance of the technology on the part of those in an MNC’s subsidiaries. This is particularly concerning given both the increase in the use of technology in marketing efforts (e.g., customer database marketing, quick response, electronic data interchange, etc.) and the entrance of MNCs into emerging market contexts. As such, a central question for MNCs has become whether the process of technology acceptance employed in their domestic markets is appropriate when operating in diverse markets or whether the MNC could be more effective by adapting for cultural differences.

In the U.S., the most effective model for understanding the adoption of technology has become the technology acceptance model (TAM) (Davis 1989; Davis et al. 1989). The TAM has become widely accepted because of its parsimony and explanatory power. The model argues that users develop perceptions about the usefulness and ease of use of technologies, in turn; these perceptions influence user attitudes which influence behavioral intentions and ultimately actual system use. Despite TAM’s success in explaining information system acceptance behavior, the appropriateness of the model has not been extended beyond the boundaries of western world. This is an important issue for MNCs as it influences the appropriateness and effectiveness of the process strategy that the firm employs to foster the acceptance of technology both domestically and throughout its worldwide operations.

Specifically, the inability of an MNC to adapt to local conditions or cultural incompatibility and the inappropriateness of the imported technology are considered to be major obstacles to successful acceptance of new technology (Hakanson and Nobel 2000). To successfully employ technology across cultures, one must understand whether or not cultural differences influence the processes at work. For, as Kedia and Bhagat (1988) argue, the influence of cultural differences on adoption and other organizational operations can be tremendous.

Therefore, the aim of this study is to examine whether the technology acceptance model employed in the U.S. is appropriate in a country context divergent from that of the U.S. Specifically, we examine the appropriateness of the TAM model, offered by Davis et al. (1989) and extended by Robinson (1991), in the cultural context of China. We would like to contribute to the literature by providing for an enhanced understanding of the appropriateness of the U.S.-based technology acceptance model in the context of China.

The findings of this study provide a number of unique theoretical and managerial insights into technology acceptance in China. First, as MNCs expand into new markets such as China, transferring technology to local subsidiaries in order to more effectively compete in the host country, it is important for managers to understand the appropriateness of the process of technology acceptance. The findings of this study indicate that while the U.S.-based TAM may apply, the competing technology acceptance model presented is more appropriate for the Chinese context. Theoretically, the competing model differs by the exclusion of two TAM constructs, i.e., ease of adoption and attitude toward adoption, and the inclusion of government intervention and technological benefits. The decision to exclude ease of adoption from the competing model was based on theoretical differences between Chinese and U.S. operating environments. Specifically, given China’s top-down (hierarchical) managerial style, it can be argued that it is the State or a firm’s top managers that decide to adopt new technology, thereby eliminating the influence of individual user attitudes to technology acceptance. It can be argued that in China, when a firm’s top management decides to adopt a specific technology, its decision is not questioned and the individual manager’s attitude toward the technology does not mediate the relationship between the technology’s benefits and use. Further, the ease of adoption is not made at an employee level, but rather evolves through top management decision-making. If the firm decides to employ such technology, the individual manager’s perceptions regarding the ease of adoption is inconsequential as the individual under-
stands that their role in the organization is to implement the decisions of top-management. Therefore, the competing model provides for a more parsimonious model for use in the China context than the U.S.-based TAM. References are available upon request.

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A SERVICE CRITICAL CONTROL POINT MODEL FOR QUICK SERVICE RESTAURANTS

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SUMMARY

“Next.” How many times are customers subjected to this impersonal greeting implying customers are mere cogs and vaults of consumer dollars with the server behind the register being a replaceable, insensate consumption machine cog. This customer/employee relationship model is very prevalent in the quick service restaurant industry. As Americans spend half of every food dollar dining out (National Public Radio 2002), the frequency and number of foodservice employee “next” common greeting interaction will increase. Within the food production and foodservice industries operation activities, a critical control point program has been effectively applied since the 1980s. The hazard analysis and critical control point (HACCP) program was devised to reduce the likelihood of food contamination and food borne illness by identifying high risk activities throughout processing. HACCP has seven principles: (1) risk assessment; (2) critical control points (CCP) determination and identification; (3) critical limits establishment; (4) establish monitoring procedures; (5) corrective action; (6) documenting; and (7) verifying (Adams 2001). This operational critical control point model was used as the springboard to create a model outlining a (customer) service relationship critical control points.

Recent research in customer relationship marketing focuses on the value of customer relationship development and maintenance, especially in the dyadic sales model (Dwyer et al. 1987; Swan et al. 1988). Several current research studies have looked at relationship importance from the consumers’ viewpoint. Gwinner, Grimler, and Bittner (1998) indicate customers achieve three benefits (confidence, social, and economic) from forming relationship with service firms, with the confidence benefit being the most important when services were grouped as high contact, moderate or low contact, and standardized service contact. Grimler and Gwinner (2000) looked at service relationship rapport (enjoyable interaction and personal connection), noting that rapport can be influential with repeat interactions with the same customer and employee. Shapio (1989) reflects in restaurant interactions personalized service delivery can be obtained if observation, flexibility, and mirroring are utilized. Hennig-Thurau, Gwinner, and Grimler (2003) acknowledged the rapport relational benefits value but question the creation dimensions and relational outcomes.

Goulter and Ligas (2004) consider customer relationships based on the functional service act as well as the personal aspects such as trust and commitment suggesting that service firms with emotional attachment programs and training for their employees will be able to create customer emotional attachments. Young and Daniel (2003) explored the complex environment of establishing trust to ensure relational benefits between employers and employees. Little research, however, has focused on practical retail employee service training in emotional attachment or binding. In complex as well as standardized (i.e., quick service restaurants) organizational service environments, simplified categorization of stimuli allows individuals to function more effectively (Bettencourt and Gwinner 1996). This suggests utilization of easily identified control points in service delivery that can impact the customer’s and employee’s overall service perception and relationship.

Several authors suggest that customer service experiences can be distilled to “moments of truth” (Carlzon 1987; Alessandra 2003). Similarly, Storbacka et al. (1994) considered the entire customer service experience an episode within the greater context of an entire relationship. Behaviors in individual moments, or critical control points, combine to form the customer’s experience, and the outcomes of accumulated experiences comprise the customer relationship (Yoon and Suh 2003). If the service encounter is a separate and complete experience, then each experience is actually a series of moments of truth or service critical control points (SCCP). Service critical control points (SCCPs) are specific, identifiable moments in each customer service experience that carry greater emotional weight within the context of the whole service experience. It is at these specific, definable moments, cues, or points where interaction between the customer and the employee (and by extension, the company) have the greatest impact on customer affective commitment, with concurrent effects on satisfaction and loyalty. Identifiable customer service experience or “scene,” moment, or “cue” enable training to focus on subtext and intentions that motivate both customer and employee “actors” to move from Pine and Gilmore’s (1999) “scripting” or “the script” process to an emotional SCCP process.

Blending the HACCP and SCCP, a service critical control point (SCCP) model was developed to address the consumer behavior process while considering both con-
sumer and server/employee behaviors. The SCCP-model is straightforward and action oriented while focusing on identifiable service critical control points relative to the quick service restaurant industry. By identifying and codifying critical control points, the model provides an understanding of effective responses to customer expectations while moving through the specific exchange steps while creating that employee-customer emotional bonding experience to garner customer attention and affect their evaluation of the organization and its offerings.

The SCCP-model contrasts slightly with Alessandra’s (2003) global assertion that “any occasion a customer contact with any company aspect is actually a moment of truth for an organization.” Moreover, these critical control points should not be confused with Wong and Sohal’s use of critical incident to identify a generally negative customer service experience and the subsequent organizational recovery efforts (2003). Similarly, failure is often defined as a critical moment, based on its potential for recovery. Randall and Senior’s (1992) model for perceptual blueprinting outlined and examined the application of critical failure points to service provision in healthcare settings. The intent of the SCCP-model focuses on understanding and training on key identified and diagnosed service interaction critical control point or possible fail-points. The SSCP-model provides general guidelines or parameters (critical limits) for defining employee behavior and action ranges to enable identifying, monitoring, and correcting procedure/action parameters. Future qualitative and quantitative research will be undertaken to clarify service critical control points, to develop a managerial tool to deal with the customer/employee interface as well as training employee’s to bring greater, better emotional weight to the whole service experience. References available upon request.

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THE EFFECTS OF MANAGEMENT CONCERN FOR EMPLOYEES AND CUSTOMERS ON FRONTLINE RETAIL EMPLOYEES’ TURNOVER INTENTIONS

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SUMMARY

In an era of intense competitive pressures, retailers realize that creating and maintaining a loyal customer base is a key to their survival and success. Smart retail executives also recognize that no strategy aimed at external customers can be considered complete unless it includes programs for reaching, winning over and retaining internal customers (i.e., employees). Given the facts that turnovers are costly and particularly frontline employees play a critical role in customer retention, several questions beg answers: (1) what managerial practices are critical for reducing frontline employee turnover? (2) what is the underlying process that motivates frontline employees to remain in their jobs? (3) should retail managers adopt different practices for full-time and part-time frontline employees? and (4) should managerial employee retention/turndown reduction practices be tailored according to the gender of frontline employees? Against this background, in this study we develop and test a turnover model by considering management concern for customers and for employees as drivers of employee turnover, mediated by job satisfaction and affective organizational commitment.

The underlying premise of our model is that frontline employees’ assessments of top management’s concern for customers and for employees result in such affective responses as job satisfaction and affective commitment to the organization. Feelings of satisfaction and affective commitment in turn influence employees’ turnover intentions. Our model proposes that top management concern for customers and employees will send strong signals to employees regarding the top management’s focus. Perceptions of management concern for customers and employees will influence frontline employees’ job satisfaction and affective commitment to their organization. Turnover intentions are subsequently affected by employees’ job satisfaction and commitment. In other words, management concern for customers and employees acquire meaning through frontline employees’ assessments and such assessments result in frontline employees’ affective responses. The affective responses of commitment and job satisfaction then become the drivers of employees’ turnover intentions. In the process of testing our model we posit seven hypotheses and two research questions.

To collect the data, eight thousand five hundred questionnaires, with a cover letter from the CEO of a national chain of automotive parts retailer, were distributed by the store managers to frontline employees in 1200 stores across 25 states. After a three-week period, of the 8500 questionnaires distributed, 6435 were returned for a 76 percent response rate. Seventy six percent of the respondents were male, and 62 percent were full-time employees. Multiple-item five-point Likert-type instruments were used to measure the study constructs. The measures were unidimensional, reliable, and exhibited convergent and discriminant validity.

The model was first tested using the entire sample data, followed by a simultaneous test of the model using four groups defined by gender and employment status. The results based on the total sample indicate that the model fits the data well. Top management concern for customers and for employees both exert significant influences on job satisfaction and affective organizational commitment. The results also indicate that concern for employees has a stronger effect on job satisfaction than on affective organizational commitment, while concern for customers shows a stronger influence on affective organizational commitment relative to its effect on job satisfaction. Job satisfaction has a significant influence on affective organizational commitment. The effect of job satisfaction on turnover intentions is marginally significant. Finally, an examination of the total effects of management concern for customers and employees on turnover intentions reveals that both exert significant effects.

To investigate the two research questions regarding potential moderator roles of employment status and gender, we undertook a simultaneous analysis of sample covariance matrices of four mutually exclusive subgroups (full-time males, part-time males, full-time females, and part-time females). Model fit statistics suggest that the model fits the data well and hence, the equality of model parameters across the four groups should not be rejected. This result implies that employment status and gender do not appear to moderate the relationships in the model.

Our findings suggest that frontline employees in their decisions to leave or remain with the organization consider not only how they are treated by management but
also how concerned management is about satisfying customers. The finding that turnover intentions are influenced more strongly by affective organizational commitment than job satisfaction suggests that retention efforts should be directed to strengthen affective organizational commitment. Also our findings suggest that top management must not only send genuine and consistent signals about the importance of the well-being of employees but emphasize the critical nature of satisfying customers. References available upon request.

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THE DEARTH OF THE SALESPERSON IN MARKETING RESEARCH

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SUMMARY

Among the recent key trends and research topics in marketing are relationship management (CRM), customer retention, and service delivery. As a key agent in developing and maintaining a customer relationship as well as delivering services and products, the salesperson would seem a key focus of study. This paper examines the dearth of recent articles on sales and sales management in leading journals and business schools, and raises issues about the effect of ignoring the sales function on the grounding of key research topics in marketing.

The Dearth of Sales Research

A review of the leading marketing journals shows a surprising dearth of articles on sales, salespersons and sales management. The author reviewed the issues of three leading marketing journals, Journal of Marketing ("JM"), Marketing Science ("MS") and Journal of Marketing Research ("JMR"), for the years 2003 and 2004, taking a broad view of the topic and including any article that had significant content relating to salespersons, customer contact personnel or boundary-spanning personnel. Only a total of five articles were found: two in JM, three in MS and none in JMR. These five articles represented less than one article per year of journal issues and only two percent of articles published in the three journals during that two-year time frame.

The author chose one of the journals, JM, to examine two-year periods in 20-year intervals and found that there was a clear decline in articles dealing with sales. This was actually a very conservative test since articles in the earlier periods were selected for having sales person or sales management in the title, in contrast to the 2003–2004 period when the author examined each article for content relating in any way to sales or sales management.

The author also surveyed ten leading business schools selected from the Wall Street Journal annual ranking of schools and marketing programs (Alsop 2004) to get an indication of research in progress at those schools and subject being taught to MBA students. Even though faculty at the ten business schools typically listed three or more areas of interest, only 7 of 177 marketing faculty (4%) listed an area related to sales, salespersons or sales management as an area of interest. Only five of the ten schools had a single faculty member with an interest related to sales.

Research in Sales and Sales Management

The Journal of Personal Selling and Sales Management ("JPSSM") is devoted to research in selling and sales management. Industrial Marketing Management and other marketing journals publish sales-related research. There is an active sales special interest group of the AMA. Moncrief (2000) found that "scholarly activity in sales and sales marketing appears to be robust" (p. 99). Although this paper is not a review of the sales-related literature, several threads of the research should be mentioned, such as a series of articles on leadership to advance customer-orientation and relationship marketing (Bass 1997; Dubinsky et al. 1995; MacKenzie et al. 2001). On the topic of customer retention, a number of articles have indicated that in many industries the primary customer loyalty is to the salesperson, not the firm (Anderson and Robertson 1995; Macintosh and Lockshin 1997).

Sales-related research should not be a totally separate silo, but should be a part of many other strategies and research topics. Not just relationship management and customer-retention, but other strategies such as customer collaboration in innovation (von Hippel 1986) and customer co-production of services (Bendapudi and Leone

| Journal of Marketing: Two Year Periods Over Four Generations of Research |
|---|---|---|
| **Years** | **# Articles on Sales/Sales Mgmt.** | **Avg #/Issue** |
| 1943–1944 | 8 | 1.00 |
| 1963–1964 | 7 | 0.88 |
| 1983–1984 | 6 | 0.75 |
| 2003–2004 | 2 | 0.25 |
must rely at least in part on the initiative of sales personnel.

The Journal of Product and Innovation Management ("JPIM"), a journal specializing in new product development ("NPD"), was founded three years after JPSSM. During the history of the JPIM, NPD articles in leading marketing (JM and JMR) and management journals have more than tripled as a percentage of total articles in the journals to six percent of their total output in recent years. Clearly the same trend has not yet occurred in sales-related research with the total at the two percent level. The key role of sales personnel in initiating and overseeing the co-production of services may be the impetus to put the salesperson back into the leading journals.

Teaching Sales

The leading textbook for marketing management has a 25-page chapter that starts with “No one debates the importance of the sales force in the marketing mix” (Kotler 2000, p. 638). However the sales chapter is the very last one before the conclusion, in a 706-page text, and therefore likely gets skipped or covered quickly in most courses. In the course offerings in marketing available on the web sites of the ten schools from the Wall Street Journal list only four offered a single course in sales or sales management. Only one of them offered more than one course.

As in the case of research, a review of the top business schools makes sales-related teaching look less robust than is the case. Many undergraduate programs offer sales courses; the University Sales Center Alliance actively promotes the study of sales. Yet if “sales is a board room topic” (Tanner 2002, p. 570), it should be studied in preparation for senior management roles.

As a practical matter many of the most sought-after positions for MBAs involve sales and delivery of high-end services: investment banking, consulting, banking and investment roles for MBAs are either initially or eventually sales roles. MBAs who are prepared for sales roles and understand sales management should be better positioned to succeed in these fields.

Summary

Sales-related research is under-represented in leading marketing journals. Interest in sales-related research areas continues to be low among faculty of leading business schools. Sales and sales management are not emphasized in leading MBA programs. However the continued importance of relationship management supports the central importance of the key boundary-spanner, the salesperson.

A new paradigm of marketing, all marketing as service marketing (Vargo and Lusch 2004) should lead to further emphasis on personal service and the crucial role of salesperson in the co-production of services and products. Marketing research, especially topics such as relationship management, customer retention and customer collaboration or co-development would be more grounded and complete should sales research move back into the mainstream of marketing research. Business students at undergraduate as well as leading business schools would benefit from learning more about sales and sales management. Full references available upon request.
MANAGING MULTIPLE FACETS OF RISK THROUGH GOVERNANCE MECHANISMS: THE CASE OF NEW PRODUCT ALLIANCES

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SUMMARY

Introduction

With an increase in the formation of alliances to develop new products, firms are facing ever more complex challenges in managing their strategic partners. In particular, such new product alliance relationships, with significant cooperation, interdependency, and knowledge sharing, can entail different types of risk. In this research, through our literature review and field interviews, we identify three forms of risk, performance risk, knowledge leaking risk, and relational risk that can arise from a new product alliance relationship. As healthy and successful alliance relationships are critical to new product development, we seek to understand how each type of risk can affect new product alliance success. Further, as governance mechanisms are important to mitigate the negative impact of risk on new product alliances, we investigate two specific forms of governance, explicit contractual governance and normative governance, in this study.

Theoretical Background and Hypotheses

While critical, the role of risk is still not understood in interfirm research and the concern regarding the effect of various aspects of perceived risk remains (Kohli 1989; Rindfleisch and Heide 1997). Building on extant research, we suggest that risk is composed of three dimensions, performance, knowledge leaking, and relational, that derive from and within the exchange relationship between two firms. Performance risk is the extent to which a given firm is uncertain about the products/services or activities provided by its partner firm fail to function as expected and the negative consequences associated with the failure. Knowledge leaking risk is the degree to which a firm is uncertain about revealing its proprietary knowledge to its partner and the negative consequences associated with such disclosure. Relational risk is defined as the extent to which a given firm is uncertain about its partner’s commitment and the negative consequences of the relationship if the partner firm fails to commit as expected (Das and Teng 1996). Risk is unavoidable and imposes uncertainties to alliance firms, thus we expect that each type of risk dimensions influence negatively on new product alliance success.

H1–H3: New product alliance success relates negatively to a firm’s assessment of risk on (H1) its partner performance, (H2) leaking proprietary knowledge to its partner, and (H3) interfirm relationships.

Nevertheless, extant research has suggested that governance mechanisms, including explicit contractual governance and normative governance, are important means to safeguard opportunism or create harmony between firms resulting in successful interfirm relationships. Explicit contractual governance mechanism reflects how much detail a firm’s contract or agreement is written to specify its roles and obligations in relation to its partner (Williamson 1996). Alternatively, normative governance implies that a firm uses social norms rather than legal forces to control over its partner (Macneil 1980). By deploying these two governance mechanisms, a firm is hoping that its alliance partner can compile with legal obligations and at the same time encouraging long-term commitment and obligations, and cultivating future cooperation. Thus, including both contractual and normative components should aid in facilitating new product alliance success on the one hand and mitigate various types of risk on the others (e.g., Cannon, Achrol, and Gundlach 2000; Lusch and Brown 1996).

H4–H5: New product alliance success relates positively to the extents of (H4) explicit contractual governance and (H5) normative governance.

H6: In the presence of explicit contractual governance, the negative impact of risk associated with (a) its partner performance, (b) knowledge leaking, and (c) the relationship with the partner on new product alliance success can be reduced.

H7: In the presence of normative governance, the negative impact of risk associated with (a) its partner performance, (b) knowledge leaking, and (c) the relationship with the partner on new product alliance success can be reduced.

Methods and Results

We collected data from 133 high tech firms and used confirmatory factor analyses to assess construct validity.
and reliability and OLS regression to test our hypotheses. To address multicollinearity, we mean centered our constructs before creating interaction terms (Aiken and West 1996). Regarding the impact of each type of risk, we find support on the negative effects of performance risk ($H_1$: $b = -.09, p < .10$), knowledge leaking risk ($H_2$: $b = -.12, p < .05$), and relational risk ($H_3$: $b = -.223, p < .05$) on new product alliance success. We also find support on the positive impact of explicit contractual governance ($H_4$: $b = .187, p < .05$) and normative governance ($H_5$: $b = .214, p < .05$) on new product alliance success. Whether the two forms of governance would have differential effects on the negative relationships between risk types and new product alliance success, we find mixed results. Our results show that explicit contractual governance can reduce only the negative effects of performance risk ($H_{6a}$: $b = .131, p < .05$) and relational risk ($H_{6c}$: $b = .158, p < .05$) on new product alliance success while knowledge leaking risk remains indifferent ($H_{6b}$: $b = .003, p > .10$). Regarding the moderating role of normative governance, none of our results indicates a significant effect on the relationship between new product alliance success and performance risk ($H_{7a}$: $b = .053, p > .10$), knowledge leaking risk ($H_{7b}$: $b = .022, p > .10$), and relational risk ($H_{7c}$: $b = -.001, p > .10$).

**Conclusion**

Our results concluded that each dimension of risk had different and yet negative effects on new product alliance success. The results further showed that both explicit contractual and normative governance mechanisms contribute positively to the success of new product alliances. With the deployment of explicit contractual governance, the effects of negative performance risk and relational risk can be attenuated. References are available upon request.

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CHANNEL BUREAUCRATIC STRUCTURE AND BOUNDARY INTERPERSONAL TRUST

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SUMMARY

Building and maintaining channel boundary interpersonal trust is extremely important in interorganizational relationships. Within the marketing channel, bureaucratic structure (formalization, participation, and centralization) concurrently affects the quality of the channel relationship (Dwyer and Oh 1987), as well as the nature of the interpersonal ties among its boundary personnel, and thus interpersonal trust. Communication plays a vital role in coordinating interorganizational behaviors (Mohr and Nevin 1990). In this paper, we specify three broad forms of communication content (Sullivan 1988): goal-related, task-related, or social communications. Task-related and goal-related communications are reflective of a higher-order form of communication, instrumental communication.

Formalization is the extent to which decision making is regulated by explicit rules and procedures. These rules, procedures and regulations also attempt to regulate interactions between the supplier and the dealer, as well as interactions between the dealer and customers. This would require boundary personnel on the dealer side to consult corresponding people in the supplier side frequently to obtain a full understanding of these rules or procedures, thereby increasing business-related interactions. Therefore, business-related communication, i.e., instrumental communication, is enhanced in a formalized channel structure. However, social communication is conducted through non-work-related conversations or pure social meetings. Formalization will not impact boundary personnel’s social interactions. Thus, we have:

H1a: Greater formalization will lead to more instrumental communication.
H1b: Formalization has no significant impact on social communication.

Participation in the decision making process will require increased utilization of information from the dealer side, including marketing information, customer responses, and the dealer’s operational status. This need for information fosters instrumental communication between the dealer boundary personnel and the supplier’s rep. Another major effect of participation on communication is its attitudinal influence. Participation will lead to higher levels of worker satisfaction, and low levels of conflict in a number of organizational situations (Miller and Monge 1986). Boundary personnel in such a marketing channel are more likely to exchange personal information, thus engaging in social communication. Hence, we propose:

H2a: Greater participation will lead to more instrumental communication.
H2b: Greater participation will lead to more social communication.

A marketing channel is considered centralized to the degree that authority of decision making is not delegated but is concentrated at a particular channel side (in our case, at the supplier side). With a concentration of authority, the dealer’s only role is to implement the supplier’s policies and decisions. Hence, instrumental communication about business operations is more limited in a centralized channel structure. Centralization will also influence the channel climate. In a rigid hierarchy of authority, workers have little control over policies and processes. The result of such a centralized authority structure is employees’ “dissatisfaction and alienation,” leading to less interpersonal communication (Ramaswami, Agarwal, and Bhargava 1993, p. 182).

H3a: Centralization decreases instrumental communication.
H3b: Centralization decreases social communication.

Instrumental communication facilitates the transfer of information about current and future tasks. Through ongoing communication, expectations about shared values are “forged and commitments tested” (Zajac and Olsen 1993, p. 139). And shared values or similarity have been found as a major predictor of interpersonal trust (Doney and Cannon 1997; Morgan and Hunter 1994). Doney and Cannon (1997) also suggest a positive link between frequent business contacts (i.e., instrumental communication) and the buyer’s trust of the supplier’s salespeople. We have:

H4: Increases in instrumental communication will lead to higher interpersonal trust.
Social communication in marketing channels gives dealer boundary personnel a chance to evaluate the supplier’s rep, both in terms of business operations and personal credibility. This type of communication serves the fundamental function of asserting the value of self and others. In addition, social communication enhances the personal ties and bonds that may then “produce trust in the other party’s goodwill” (Ring and Van De Ven 1994, p. 104). In short, social communication is critical because it embeds economic activities within a social structure and binds the parties together by enhanced personal trust. Therefore, we propose:

H5: Increases in social communication will lead to higher boundary interpersonal trust.

We conducted a national mail survey of general managers and owners of franchised new farm equipment wholesale operations in the U.S. (n = 459). The hypothesized model was tested via a structural equation model using LISREL 8.51. Overall, our conceptual model was adequately supported by the empirical results. Formalization enhances instrumental communication but has no significant impact on social communication. Participation increases both instrumental and social communication. Centralization inhibits instrumental communication but has no significant impact on social communication. Both instrumental and social communications significantly foster boundary interpersonal trust.

Our current study provides an attempt to bridge interorganizational structure and interpersonal trust, helping us to understand how to develop and maintain trust in business relationships. In the current study, we investigate marketing channel communication in terms of its substantive content issues, rather than its influence content, finding both types of communication to be important in building boundary spanner interpersonal trust. More strikingly, the channel’s bureaucratic structure dimensions had different effects on these two types of communication. The multidimensional treatment of communication comprises a significant contribution to the marketing channel literature. References available upon request.

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TRUST BUILDING IN U.S.-JAPANESE RELATIONSHIPS

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SUMMARY

U.S.-based firms, particularly those that are located in dissimilar cultures such as in Japan, understand the importance of being culturally sensitive and building trust with foreign business partners. In order to be perceived as culturally sensitive and to build trust, such firms often make strategic and operational investments. They believe that long-term orientation and willingness to engage in relationship building (strategic investments) and their willingness to customize products and provide exceptional support services (operational investments) could enhance trust with business partners. Prior research also suggests that a firm’s degree of cultural sensitivity could have a significant effect on the level of trust among business partners.

However, the role these investments and cultural sensitivity play in building trust is not clear. The objective of this research is to understand the importance of cultural sensitivity in building trust and also to understand the impact of these strategic and operational investments on cultural sensitivity and trust. For a firm with limited resources, understanding which variables are most influential in trust building will guide future marketing investment decisions regarding U.S.-Japanese business-to-business relationships.

Model

Cultural sensitivity is the central mediating variable in our model. We hypothesize that strategic and operational variables help to build trust via different mechanisms. Specifically, we hypothesize that strategic variables influence trust only as mediated by cultural sensitivity, whereas the operational variables directly influence trust without mediation by cultural sensitivity.

Method and Measures

Our sample is comprised of 249 U.S. firms that operate sales offices or subsidiaries domiciled in Japan and engage in business-to-business marketing. We used a telephone procedure to identify key executives in these firms who had considerable knowledge of the firm’s products and extensive contact with Japanese buyers. Of the 249 questionnaires mailed, we received 198 questionnaires, of which 181 were usable (n = 181).

Results

The theoretical model was tested using LISREL 8.54 and showed excellent fit (comparative fit index = 0.98; goodness of fit index = 0.84). Our results support the hypotheses that U.S. seller’s who demonstrate long-term orientation and relationship-building efforts toward Japanese buyers (strategic variables) positively influence the perception that U.S. sellers are culturally sensitive. Furthermore, perceptions of U.S. sellers’ cultural sensitivity positively influence trust. However, we found that investing time and financial assets would not enhance perceptions regarding the cultural sensitivity of U.S. sellers.

Regarding the operational variables, we found that investments in product-related variables (e.g., providing products that are unique, innovative, competitive and customized to meet customer needs) directly and positively influences trust. However, investing in service-related variables (e.g., providing channel support, providing after-sales service) has no significant influence on Japanese buyers’ trust in U.S. sellers.

In order to strengthen support for our model, we conducted two tests of mediation (Baron and Kenny’s approach (1986) and LISREL). We found that cultural sensitivity is a full mediator of the relationship between relationship building and Japanese buyer’s trust and a partial mediator of the relationship between long-term orientation and trust.
REFERENCES


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SUMMARY

This paper reports results of a couple of experiments mimicking buyer-seller negotiations over a two period game. Two independent factors are studied that provide asymmetry to parties’ negotiations – a threat price from a competitor of the supplier and private information held by either the buyer or seller. A threat position, such as a price bid made by a competing supplier, is usually available to a buyer so we focus solely on that threat condition. Private information might belong to a seller – for example a seller might have information on buyer’s resale price and profit margins while the buyer might not know about seller’s costs and margins – but a buyer could as easily have an information advantage. In the information asymmetry condition we allow either buyer or seller to have the advantage. The first experiment uses Threat and Information treatment variables but only allows the seller to possess (and possibly share) private information about the buyer. The second, more complete experiment, involves a [2 (Threat/No Threat) X 2 (Information asymmetry/No Information asymmetry) X 2 (Buyer with information/ Seller with information)] design. There are two treatment factors and a blocking factor.

Discrete price points are made salient to the subjects who participate in the experiments in the role of either a buyer or a seller under a simulated contract (re)negotiation scenario. The additional information which might be available to one or other party takes the form of utility values (opponent’s preferences) corresponding to each possible price settlement.

Hypotheses are developed that reflect equitable solutions for this distributive game. The three hypotheses are related to the main effect of threat, main effect of information, and the interaction between threat and information, on the occurrence of specific equitable or “fair” outcomes. Formalized equitable solutions include the equal earning (from a minimum level overall) or equal loss (from a

| TABLE 1 |
| Frequencies of Discrete Price Solutions for Experiment 2 (N = 113) |
| **Sellers:** |
| Condition | Information | No Information | Row Marginal |
| EU | EL | RP | EE | MIN | EU | EL | RP | EE | MIN |
| Threat | 1 | 1 | 1 | 9 | 5 | 1 | 1 | 1 | 3 | 7 | 30 |
| No Threat | 1 | 1 | 2 | 4 | 2 | 2 | 3 | 3 | 2 | 2 | 22 |
| Col marginal | 2 | 2 | 3 | 13 | 7 | 3 | 4 | 4 | 5 | 9 | 52 |
| **Buyers:** |
| Condition | Information | No Information | Row Marginal |
| EU | EL | RP | EE | MIN | EU | EL | RP | EE | MIN |
| Threat | 1 | 1 | 1 | 2 | 10 | 1 | 1 | 1 | 5 | 7 | 30 |
| No Threat | 0 | 1 | 2 | 7 | 6 | 2 | 3 | 5 | 3 | 2 | 31 |
| Col marginal | 1 | 2 | 3 | 9 | 16 | 3 | 4 | 6 | 8 | 9 | 61 |
maximum attainable level) of utility to both bargainers for a given price settlement. Other solutions are also possible including a previous settlement (reference) price and an equal utility price. From highest to lowest the discrete solution points that are analyzed include the equal utility price (EU), equal loss price (EL), reference price (previously negotiated price, RP), equal earning price (EE), and minimum possible price (MIN). The frequency of occurrence of these outcomes under the experimental conditions is detailed in Table 1.

Analysis of the above data reveals a main effect of information on frequency of the equal earning outcome – it is more likely to occur when sellers have information about buyers’ preference for outcomes. There is also a significant interaction effect which suggests that the increase in frequency of equal earning outcomes with information sharing is greater when a threat price exists, compared to when there is no threat. There are no corresponding effects, of either threat or information, on frequency of equal loss settlements. When buyers possess a threat price, the best outcome that sellers can achieve is an equal earning settlement if they share private information.

The relatively high incidence of such equal earning outcomes (which are the highest prices achieved by sellers in our experiments under threat) is encouraging for sellers. The results suggest that, if sellers possess private information they might be able to offset partially the seemingly overwhelming advantage that a buyer has with a threat position. We conclude that asymmetric bargaining should typically favor buyers but that certain conditions of the negotiations might yield a specific equitable outcome represented by equal earnings in utilities. Given the inherent asymmetry in favor of buyers, other equitable solutions such as equal losses in utilities are however less likely to occur. References available upon request.

Key Words: Two-party negotiations, asymmetric bargaining, price bidding, buyer/seller negotiations:

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EARNING A PREMIUM WITHOUT CHANGING THE PRODUCT: USING PRICE TRANSPARENCY TO CREATE A COMPETITIVE ADVANTAGE

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ABSTRACT

Decision theory in marketing and economics states that consumer utility should decrease as price increases. In this study, we explore the possibility that consumers may behave contrary to theory if prices are “transparent”; i.e., if consumers have information about the post-sale distribution of price among agents supplying a product. Using the method of discrete choice analysis in the music CD category, preliminary findings support the idea that transparent prices significantly alter the traditional consumer response to price. We rely on findings from two streams of literature – inequity aversion and social consciousness theory – to help explain results.

INTRODUCTION

Many firms have gone beyond traditional product and price differentiation strategies to communicate to the consumer the social causes that the company supports. Some well known examples include Starbucks’s publicized support of their local coffee bean growers and Jamieson Chocolate’s support for the educational system in Ghana from where the firm single-sources its cocoa beans. In both cases, the social cause is a prime contributor to the product’s appeal and the company hopes to increase sales as a result of communicating this information to the consumer.

In these examples, the firm provides indirect information that it fairly compensates certain agents in its supply-chain. However, there is no detail about the degree of support. Certainly, in neither case is the consumer given explicit information about how the total point-of-sale retail price is allocated among various elements of the firm’s supply chain. In this paper, we argue that there may be situations where the buyer will care about this allocation and will exhibit non-self-interested behavior as a consequence, especially if the buyer identifies with one or more supply chain agent. Thus, communicating the allocation of retail price at the point-of-sale or through targeted marketing efforts may provide a meaningful competitive advantage to a seller.

We refer to the revelation of a product’s price components to the consumer as price transparency. More formally, price transparency is the process of revealing information to a buyer on how proceeds from the sale of a product or service are distributed among the various members of the supply chain that creates the item. This price breakdown reveals information to which the consumers normally do not have access. Currently, there is no single theory on how consumers will react to such revelations. Nonetheless, there are related – and competing – theories that help provide a foundation for such understanding. For example, classic economic theory strongly suggests that, ceteris paribus, consumer utility is monotone decreasing in a product’s price (Maxwell 1995). Competing theories arise from considerations of inequity aversion (Fehr and Schmidt 1999) and more generally from utility functions that include a “social preferences” component that takes fairness and other non-self-interested behaviors into account to understand consumer preferences (see Rabin 1993; Charness and Rabin 2002).

The purpose of this paper is to develop a preliminary understanding of the impact of price transparency on consumer decisions and to see where our empirical findings may be subsumed by existing theory and where new theory is required. More specifically, we want to quantify the impact of price transparency on consumer utility and determine if the relationship between utility and price transparency is more consistent with classical economic theory or with recently developed theories that consider the impact of mechanisms such as inequity aversion, difference aversion, and social welfare on consumer decision-making.

RELEVANT RESEARCH

A thorough review of the extant marketing literature failed to find prior research specifically addressing the topic of price transparency. However, various streams of research from economics, consumer behavior, and social psychology have implications for the present work.

Classic Economic Theory

Classic economic theory suggests that utility will monotonically decline as price increases when tangible characteristics of a product are held constant (Fehr and Schmidt 1999; Landsburg 1995). Maxwell (1995) states that: “The basis for determining a fair or acceptable price has been assumed to be purely economic. The neoclassical assumption is that consumers are motivated by utility maximization: They make decisions based on their own...
Inequity Aversion and Social Preferences

While the economic model has strong face validity and has stood the test of time, other research has shown that it does not accurately describe important subtleties of consumer behavior. Various authors have noted that consumer perceptions of fairness also impact purchase decisions and, hence, utility: “By now we have substantial evidence suggesting that fairness motives affect the behavior of many people” (Fehr and Schmidt 1999). This sentiment is echoed by Maxwell (1995): “Numerous studies have shown that customers’ acceptance of a price, particularly a price increase, depends on their considering it ‘fair’.”

Using these ideas to derive implications for economic behavior extends equity theory into situations where there is a tension between self interest and social welfare. More specifically: “An individual is inequity averse if he dislikes outcomes that are perceived as inequitable” (Fehr and Schmidt 1999). While inequity aversion can be interpreted in different ways, the overall theory contends that consumers will make decisions so as to reduce perceived unfairness to themselves as well as to others. Hence, inequity aversion can be applied to scenarios where there is a need to achieve a balance between competing self and social interests.

Issues related to fairness have also been extensively tested in game theory. For example, a dictator game is a two-player game where a proposer and responder divide a total payout according to the proposer’s wishes; the responder has no say in the matter. According to classic economic theory, the proposer should keep the whole payout. However, Bolton and Ockenfels (2000) cite research that shows that proposers, in fact, share some of the payout. In a series of widely reported experiments, Charness and Rabin (2002) test a more general model of the influence of social welfare considerations on individual behavior and, surprisingly, find a lack of support for inequity aversion, but strong support for other social welfare mechanisms. They state: “...our data strongly suggest that inequity reduction is not a good explanation of Pareto-damaging behavior. By contrast, inequity-aversion models do provide an elegant insight into players’ willingness to sacrifice when ahead of other players. Yet social welfare preferences provide an even better theory of helpful sacrifice.” Social welfare preferences are related to notions put forth by Yaari and Bar Hillel (1984) that “players want to help all players, but are particularly keen to help the person who is worse off.”

Implications from Published Work

Our literature review leads to the following general conclusions. First, there is no direct mapping from published theories to a theory of price transparency. Several streams of research can be brought to bear on the likely effects, if any, of revealing price component information to consumers. Second, although the notion of price transparency per se has not been studied, previous research strongly implies that price transparency will affect consumer utility, particularly in cases where the consumer identifies with at least one agent in a supply chain. The impact should strengthen if the consumer feels that this agent is currently “the worst off” among those for whom price is revealed, and will strengthen even more if there are large (and apparently inequitable) differences between agent receipts.

A SIMPLE PRELIMINARY MODEL

Conceptually there are many ways the aforementioned elements could be incorporated into a utility model. As Aaker (1970) suggested, in such cases the analyst should combine conceptual elements from competing theories. The approach we use is roughly derived from game theory, which operationalizes social welfare in terms of the share of total payout that goes to various players in a game. For example, Bolton and Ockenfels (2000) state: “We might conjecture that players care about egalitarian distribution of payoffs across all players, instead of just their own relative payoff.” Our procedures allow us to test whether the buyer cares about the payout to specific third parties. We operationalize this idea by holding non-price aspects of choice options constant within subject. We reveal to the buyer the amount of total retail price that goes to each primary agent in a supply chain and carefully manipulate the amount that goes to one of these agents. Our initial model comprises two primary attributes: price and share (to each agent). As noted by Easton and Pullman (2001): “Faced with a multi-attribute decision, consumers assess the attributes of competing alternatives and select a design that provides them with the greatest utility.” This means that we can view utility for product $j$ – where all non-price attributes are held fixed – as a function of the price and the share of that price that goes to each supply chain agent $k$.

$$U_j = U_0 + \alpha P_j + \sum_{k=1}^{K} \beta_k S_k + \tilde{e}_j$$

where,

$jeJ$ : the set (and number) of all options in the
As per classic economic theory, we expect α to be negative; as the price of the product increases, utility will decrease. However, the coefficient, $β_k$ ($k = 1, K$) associated with a particular supply chain agent may be positive, negative, or zero depending on with whom the consumer identifies and to what degree.

### OVERALL STUDY APPROACH

The method of discrete choice was selected to understand and measure the potential tradeoffs between price and the proportion of that retail price that goes to various supply chain agents contributing to a product. Discrete choice models are well suited to estimate the decision-maker’s selections among various alternatives and to explore issues of price sensitivity along with sensitivity to other product attributes (Train 2003).

Results reported here involve undergraduate students evaluating music CD’s. Based on a pilot study and theoretical considerations from inequity aversion, difference aversion, and social consciousness, we propose that many college-aged audiophiles will want a relatively high proportion of a music CD’s purchase price to go to the artist; the agent with whom we expect respondents to most closely identify. Details are given in the methods section, but in general, each respondent is asked to select a CD that is on his or her “wish list.” Thus, the product (artist, song list, and label) remains fixed and individually tailored throughout the exercise. In the experiment, the respondent is presented with a series of choice sets in which this CD is offered at a range of retail prices and with various different allocations of proceeds to agents in the supply chain, including the artist, the manufacturer, the producer, and the retail outlet. The manipulated levels for the CD’s retail price and the proportion going to the artist are based on industry data from Mitsopulos (2000) and Cohen and Knopper (2004).

### HYPOTHESSES

Given this background, we state three hypotheses to be tested in this research:

**H1:** When the share going to the artist is held constant, the consumer will choose the least expensive option available in accordance with classic economic theory.

**H2:** When total cost to the consumer is equal among two or more options, the consumer will select the option where a higher proportion of the retail price goes to the artist in accordance with social preferences theory.

**H3:** In cases where the product and its total price are known, consumers will be willing to pay a premium for a music CD based solely on information about the post sale distribution of total price among agents in the supply chain; a result in direct violation of pure self-interest.

### METHOD

**Sample**

Eighty-five undergraduate students at a public university completed the discrete choice exercise. Students were given class credit for participating. The average time to complete the exercise was 15 minutes. Out of 85 surveys, eight were eliminated due to incomplete information leaving a total of 77 completed surveys for this analysis. Of these participants, 51 percent were male. Overall, respondents reported having spent an average of $29 on music CD’s and $38 on music concerts during the previous six months. When asked — following the discrete choice task — what they believed the artist typically received as {his/her/their} share of a music CD’s retail price, the mean percent is 9.6 percent. This figure is close to the actual proportion according to trade industry figures; e.g., Cohen and Knopper (2004) indicate that the artist typically receives $1.60 of a CD retailing for $15.99 or 10 percent; while Mitsopulos (2000) reports the artist receives $1.31 of a CD priced at $19.95 retail or 6.6 percent.

**Discrete Choice Design**

Prior research may overstate the degree of socially responsible behavior since testing procedures do not typically include any explicit tradeoffs between the ethical features and the tangible features of a product (Auger et al. 2003). The discrete choice approach overcomes this weakness by asking a consumer to select one option among several (or to make “no choice”), where each option is characterized by its levels on key characteristics (see Louviere et al. 2000; Train 2003; among others).

To increase the external validity of the choice task, we asked each respondent to think about a music CD that they would like to buy, but did not currently own. This specific music CD was then held constant (within respondent) for the choice task while we varied total price at three levels ($10.99, $13.99, $16.99), and proportion to the artist at three levels (Not Available or NA, 8%, 24%) in a...
full-factorial design leading to nine choice options as shown in Table 1. The price levels were chosen to be representative of readily available music CD’s (pricegrabber.com; January 2004) to reduce any potential for a price/perceived quality interaction. The NA condition represents a control level reflecting the current environment for the music CD market where price is a “black box.”

The discrete-choice design—a \( \frac{1}{32} \) fraction of the \( 2^9 \) resulted in a total of 15 choice scenarios; 1 warm-up scenario, 11 “live” scenarios, and 3 validation scenarios (Hahn and Shapiro 1966). In a single scenario, multiple options are shown to the respondent and she/he is asked to select the one option that she/he would be most likely to buy, or to select “no choice.” In each scenario (choice set) there are from 5 to 7 options, including the “no choice” alternative.

While we have discussed “the proportion of the retail price that goes to the artist” in terms of a percentage, it was presented to the respondent in terms of absolute dollars, along with the amounts (in absolute dollars) to the producer, manufacturer, and retail store. Note that holding total price at a given level and manipulating the proportion to the artist requires that the sub-total available to the remaining agents change. However, within this sub-total, we kept the other agent’s proportions constant over all experimental treatments.

To reduce the potential for demand artifacts (Allen 2004), there were no overt indications to the respondent that one of these attributes was being experimentally manipulated, while the others were not. Additionally, to improve internal validity, we rotated the order of presentation of 14 scenarios between participants. (The warm up scenario was always presented first.) A sample scenario is shown in Table 2. The name of the CD selected by a respondent was always shown at the top of each choice set and each row in the scenario represents the information for one option.

**Choice Model**

To analyze the data, we use the multinomial logit model, a simple instance of the broader class of random utility models. In this approach, a consumer is faced with

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>Full-Factorial of Two Characteristics of the Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion to Artist</td>
<td></td>
</tr>
<tr>
<td>NA</td>
<td>8%</td>
</tr>
<tr>
<td>$10.99</td>
<td>Option 1</td>
</tr>
<tr>
<td>$13.99</td>
<td>Option 4</td>
</tr>
<tr>
<td>$16.99</td>
<td>Option 7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TABLE 2</th>
<th>Sample Choice Scenario</th>
</tr>
</thead>
</table>
| [NAME OF RESPONDENT’S SELECTED CD SHOWN HERE.]
<p>| Portion of the Retail Price that Goes to Each Source |</p>
<table>
<thead>
<tr>
<th>Option</th>
<th>Retail Price</th>
<th>Manufacturer</th>
<th>Producer/Label</th>
<th>Artist</th>
<th>Retail Store</th>
<th>Please Mark Your Choice (mark only one)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>$13.99</td>
<td>$3.86</td>
<td>$4.76</td>
<td>$1.12</td>
<td>$4.25</td>
<td>☐</td>
</tr>
<tr>
<td>3</td>
<td>$10.99</td>
<td>$2.51</td>
<td>$3.08</td>
<td>$2.64</td>
<td>$2.76</td>
<td>☐</td>
</tr>
<tr>
<td>1</td>
<td>$10.99</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>☐</td>
</tr>
<tr>
<td>8</td>
<td>$16.99</td>
<td>$4.69</td>
<td>$5.78</td>
<td>$1.36</td>
<td>$5.16</td>
<td>☐</td>
</tr>
<tr>
<td>6</td>
<td>$13.99</td>
<td>$3.19</td>
<td>$3.93</td>
<td>$3.36</td>
<td>$3.51</td>
<td>☐</td>
</tr>
</tbody>
</table>

∅ I would not buy the CD at any of the prices shown … ☐
a decision between $J$ different alternatives each of which offers the consumer some level of overall utility, $U_j$. Random utility theory presumes that the consumer selects the alternative that maximizes utility among these alternatives. However, from the researcher’s standpoint, utility cannot be directly observed. The model assumes that utility is comprised of both a measured component ($V_j$) and an unmeasured component ($\varepsilon_i$). The utility available from option $i$ is, therefore, given by the sum of these two components: $U_i = V_i + \varepsilon_i$. Because the unobserved component of utility is random from the researcher’s viewpoint, each choice is the result of a probabilistic process where option $I$ is chosen if and only if:

$$\Pr \left( U_i > U_j, \forall i \neq j \right) = \Pr \left( V_i + \varepsilon_i > V_j + \varepsilon_j, \forall i \neq j \right)$$

There are several different classes of random utility models (RUM), and the choice of the most appropriate RUM depends on parametric assumptions about the distribution of the random term $\varepsilon - \varepsilon$. In the current study, we assume that unobserved factors are uncorrelated over alternatives and have constant variance. (In our study, there is no obvious reason to use a more complex model. For example, there is no strong a priori evidence that consumers will use a two-stage choice process.) In this case, the random component can be adequately represented by the Type I Extreme Value (or Gumbel) distribution. This assumption leads to a closed form expression for the required probabilities; the multinomial logit model.

Using the multinomial logit model we can restate the probability of choosing option $I$, for an individual respondent, as an expression that parameterizes the systematic portion of utility; i.e., letting $V_i = \beta \cdot x_i$, where $x_i$ is a vector of observed variables. The predictors typically include characteristics of the choice alternatives, and may also include characteristics of the respondents.

Probability of Choosing Option $i = P_i = \frac{e^{V_i}}{\sum_{j=1}^J e^{V_j}} = \frac{e^{\beta_i x_i}}{\sum_{j=1}^J e^{\beta_j x_j}}$

We operationalize price and the proportion to the artist as nominal variables. (Because our design includes the “NA” level for proportion to the artist and an option for “no choice,” treating the variables as continuous is inappropriate.) Thus, we use five separate “dummy variables” for the model: two for price ($\$10.99, \$13.99$), and three for proportion to the Artist (NA, 8%, 24%). (There is no dummy variable for $\$16.99$, to avoid multicollinear predictors.) The correlation between price and money going to the artist (in absolute dollars) is only .24, well below the typical .8 boundary used in econometrics.) Since each of the 77 respondents evaluates 11 “live” scenarios, the sample base for this analysis is 847 choice scenarios (observations).

The deterministic portion of utility for product $j$ and supply agent $k$ was modeled as follows:

$$V_j = \alpha_j \cdot P_j \cdot S_j + \beta_j \cdot S_j$$

where:

- $V_j$: Measured utility of option $j$ to respondent $i$
- $P_j$: Price of option $j$, where $P_j = \{1$ if $P_j = $ value noted $, 0$ otherwise $\}$
- $S_j$: Share of $P_j$ to agent $k$, where $S_j = \{1$ if $S_j = $ value noted $, 0$ otherwise $\}$

RESULTS

Aggregate Analyses: Experimentally Manipulated Variables Only

The model was estimated using the MDC procedure in SAS. The observed discrete choice response profiles are summarized in Table 3, which suggests that Option 3 ($\$10.99/24\%$) yields the maximum utility over all respondents. This option is selected 43 percent of the time; followed by Option 1 ($\$10.99/NA$), Option 2 ($\$10.99/8\%$), and Option 6 ($\$13.99/24\%$). Options with the highest price ($\$16.99$) are chosen relatively infrequently regardless of the percent going to the artist; i.e., the overall share of choice for these options is $(0.6 + 1.1 + 4.0) = 5.7$ percent.

Model Estimates as Partworth Utilities

The estimated model coefficients, along with appropriate fit statistics are summarized in Table 4. The overall Log Likelihood for the model is -874.03, which is significant at $p < .001$ ($\chi^2 = 1250.4, \text{df} = 5$). Additionally, all estimated parameters are significant. (The t-values are 3.5 or higher, but are not shown to simplify the table.)

These coefficients may be interpreted as partworth values for each attribute level. The values have high face validity; i.e., marginal value is highest when the CD is priced at $\$10.99$, then decreases monotonically as price increases to $\$13.99$ and then to $\$16.99$, which supports Hypothesis #1 (see Figure 1). Likewise, the marginal value is highest when the artist receives 24 percent then declines for the 8 percent and NA levels, supporting Hypothesis #2 (see Figure 1).

While theory predicts a marginal decline in value when the artist’s proportion falls from 24 percent to 8 percent, it is neutral about the relationship between “transparency” and “opaque NA” conditions. However, these results suggest that some transparency has higher value to
Relative Frequencies of Choice, by Profile

<table>
<thead>
<tr>
<th>Option Profile</th>
<th>Amount to Artist</th>
<th>Freq</th>
<th>Pcnt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$10.99</td>
<td>NA</td>
<td>113</td>
</tr>
<tr>
<td>2</td>
<td>$10.99</td>
<td>8%</td>
<td>103</td>
</tr>
<tr>
<td>3</td>
<td>$10.99</td>
<td>24%</td>
<td>367</td>
</tr>
<tr>
<td>4</td>
<td>$13.99</td>
<td>NA</td>
<td>20</td>
</tr>
<tr>
<td>5</td>
<td>$13.99</td>
<td>8%</td>
<td>60</td>
</tr>
<tr>
<td>6</td>
<td>$13.99</td>
<td>24%</td>
<td>99</td>
</tr>
<tr>
<td>7</td>
<td>$16.99</td>
<td>NA</td>
<td>5</td>
</tr>
<tr>
<td>8</td>
<td>$16.99</td>
<td>8%</td>
<td>9</td>
</tr>
<tr>
<td>9</td>
<td>$16.99</td>
<td>24%</td>
<td>34</td>
</tr>
<tr>
<td>10</td>
<td>Would Not Choose Any</td>
<td></td>
<td>37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>847</td>
</tr>
</tbody>
</table>

Estimated Coefficients

<table>
<thead>
<tr>
<th>Price Level</th>
<th>Estimate ($\hat{\beta}$)</th>
<th>Percent to Artist</th>
<th>Estimate ($\hat{\beta}$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10.99</td>
<td>+3.302</td>
<td>NA</td>
<td>-1.243</td>
</tr>
<tr>
<td>$13.99</td>
<td>+1.355</td>
<td>8%</td>
<td>-0.994</td>
</tr>
<tr>
<td>$16.99</td>
<td>0.000</td>
<td>24%</td>
<td>+0.813</td>
</tr>
</tbody>
</table>

Log Likelihood: -874.0
$\chi^2$ (df = 5): 1250.4
P < .001

Results also provide insights about situations in which a consumer will pay a premium for a music CD (Hypothesis #3). In particular, given these relative partworth values, some consumers will pay a $3 premium (from $10.99 to $13.99, or from $13.99 to $16.99), if the amount that goes to the artist increases from 8 percent to 24 percent. For example, the utility values are approximately the same at 2 utiles for $10.99/8 percent and $13.99/24 percent. This information is shown in Figure 2.

The predicted “market share for” (probability of selecting) each alternative is given by adding the partworths for each \{\text{PRICE, PROPORTION TO THE ARTIST}\} combination. These values are shown in Table 5. For example, the average predicted purchase probability for the \{$10.99, NA$\} treatment is given by the following calculation:

$$P_{\{\text{$10.99, NA$}\}} = \frac{e^{3.302-1.243}}{\sum_{j=1}^{i} e^{\beta x_j}} = \frac{e^{2.059}}{\sum_{j=1}^{i} e^{\beta x_j}} = .083$$

Of course, within a specific choice set, the probability of choosing any particular option depends on the other available alternatives.
Validation Accuracy

As part of the study design, three scenarios were designated as hold-out (or validation) choice sets. (From the respondent’s perspective, there was no difference between the “live” scenarios and the hold-out scenarios.) Validation scenarios allow us to test the out-of-sample predictive accuracy of the model. Positive results from these tests lend confidence to our interpretation of the estimated coefficients and the model’s overall validity.
### TABLE 5
Average Probability of Purchase by Price and Proportion to Artist

<table>
<thead>
<tr>
<th>Price</th>
<th>$10.00</th>
<th>$13.99</th>
<th>$16.99</th>
<th>Row Marginals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion to the Artist</td>
<td>NA</td>
<td>.083</td>
<td>.122</td>
<td>.003</td>
</tr>
<tr>
<td></td>
<td>8%</td>
<td>.107</td>
<td>.015</td>
<td>.004</td>
</tr>
<tr>
<td></td>
<td>24%</td>
<td>.648</td>
<td>.093</td>
<td>.024</td>
</tr>
<tr>
<td>Col Marginals</td>
<td>.838</td>
<td>.120</td>
<td>.031</td>
<td>.989</td>
</tr>
<tr>
<td>No Choice</td>
<td>.011</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### TABLE 6
Out of Sample Prediction

<table>
<thead>
<tr>
<th>Validation: Scenario #1</th>
<th>Validation: Scenario #2</th>
<th>Validation: Scenario #3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability of Selection</td>
<td>Probability of Selection</td>
<td>Probability of Selection</td>
</tr>
<tr>
<td>Option</td>
<td>Obs</td>
<td>Pred</td>
</tr>
<tr>
<td>$10.99/NA</td>
<td>0.675</td>
<td>0.738</td>
</tr>
<tr>
<td>$13.99/NA</td>
<td>0.065</td>
<td>0.105</td>
</tr>
<tr>
<td>$16.99/NA</td>
<td>0.000</td>
<td>0.027</td>
</tr>
<tr>
<td>$16.99/8%</td>
<td>0.052</td>
<td>0.035</td>
</tr>
<tr>
<td>No Choice</td>
<td>0.208</td>
<td>0.094</td>
</tr>
</tbody>
</table>

Table 6 shows the three validation choice sets, and the observed and predicted choice probabilities for each option within each scenario. We see that the model predicts the probability of selecting each option quite well, even in choice sets without the popular $10.99/24 percent option. More specifically, the product moment correlation between observed and predicted shares – over all sixteen observations (including the “no choice”) – is $r = .980$ ($p < .0001$). By validation scenario, the correlations are: $r_1 = .975$ ($p < .005$); $r_2 = .982$ ($p < .003$); and $r_3 = .993$ ($p < .0001$), respectively.

As previously discussed, the probability of choosing a specific option (within an individual choice set) depends on the other alternatives in that choice set. The validation scenarios provide several examples of this phenomenon. For example, in Validation Scenario #1, the predicted probability of selecting $10.99/NA$ is .738; while in Validation Scenario #3, the predicted probability of selecting the same option ($10.99/NA$) is only .097. This difference occurs because the most popular $10.99/24$ percent option is available in Scenario #3 – thus reducing the probability of choosing any other alternative in this choice set – but not in Scenario #1.

Validation Scenario #2 also provides an explicit example of the trade-offs that are made between price and the proportion to the artist. In this scenario, there is an equal probability of choosing $10.99/8$ percent and $13.99/24$ percent. Thus, roughly half of the respondents are prepared to pay $3 more for a music CD, if the proportion that goes to the artist increases from 8 percent to 24 percent.
CONCLUSION

In this study we investigate the effects of price transparency on consumer choice. The goal is to determine if consumers behave contrary to classic price elasticity theory under conditions where information about price components and "profit sharing" are revealed. The literature of social preferences suggests that an individual may forfeit a certain amount of self-interest to insure a more equitable distribution of returns among agents interacting with one another, and where the action of one directly affects the welfare of all. We hypothesize that this same aversion may hold in cases where the consumer identifies with a given agent in the supply chain and believes that this agent is not receiving their equitable share of overall returns or more importantly, is "the worst off." We are also guided by the social consciousness literature, which suggests that individuals may "vote with their dollar," directing their purchasing power toward causes they personally support. Importantly, in the present case, we found young respondents to be generally more supportive of performing artists than of any of the other agents in the music producing supply chain.

Future research in this area should enlarge the scope. Empirical tests should include several product categories, not just one; and should mix categories that evoke social consciousness and equity issues to varying degrees. For example, we are considering including textbooks and charitable giving along with music CDs in future work. Textbook purchases tend to evoke self-interest rather than social consciousness, while charitable giving invokes considerations of social consciousness.

LIMITATIONS

As in any research, there is always a possibility that the respondent may anticipate the goals of the research and respond in a way that conforms to that goal (Allen 2004). We have attempted to minimize this potential for "demand artifacts" by not providing any overt indication that we were manipulating the proportion of the total price to the artists. Still, we acknowledge the possibility of demand artifacts in this research. To reduce this possibility in future experiments, we plan to use web-based data collection techniques so that more elements of the presentation format can be randomized.

Lastly, our preliminary findings support the idea that transparent prices can alter traditional response to price variations, but it is based on a single product category and uses a relatively small sample. More fundamentally, the theoretical underpinnings for our findings, although sound in general, have not been integrated into a more precise theory that yields sharp testable hypotheses. For example, we cannot yet pinpoint which of the forces – inequity aversion, difference aversion, or social consciousness – is primarily responsible for the observed trends that run counter to classic price theory. We are at work developing a more precise theory from which sharper hypotheses can be deduced.

ENDNOTES

1 Exceptions include backward sloping demand curves in cases where consumers impute quality from a product’s price. However, as will be evident, this phenomenon does not apply in the cases we study.

2 In the exercise, respondents see dollar amounts, but these are manipulated as shares in our experimental design. Details are provided shortly.

3 The constant is the sum of two parts, an individual specific constant and that portion of overall utility derived from tangible aspects of the product.

4 Hence, the quality of the product is known to the consumer and need not be imputed. Furthermore, since the product remains constant throughout the exercise within Ss, the correlation between price (manipulated experimentally) and quality is zero.

5 Parameters were also estimated using LIMDEP. Estimates were identical.

REFERENCES


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DYNAMIC PRICING AND CONSUMER PERCEPTIONS OF (UN)FAIRNESS

Kelly L. Haws, University of South Carolina, Columbia
William O. Bearden, University of South Carolina, Columbia

SUMMARY

With nearly constant attention on the prices of gas, pharmaceuticals, and other goods and services, perceived price fairness is a real world phenomenon deserving attention from consumer researchers. Pricing fairness has gained recent attention in the marketing literature (e.g., Bolton, Warlop, and Alba 2003; Xia, Monroe, and Cox 2004; Vaidyanathan and Aggarwal 2003; Campbell 1999). Another issue that is increasingly being investigated in the marketing literature is dynamic pricing. Dynamic pricing, often referred to in economic terms as individual-level price discrimination (Garbarino and Lee 2001), is characterized by frequent changes occurring daily or evenly hourly (Kannan and Kopalle 2001) in the prices marketers charge for their merchandise and has become much more common with the increased importance of internet marketing. Importantly, little is known about the impact of dynamic pricing strategies on consumer perceptions of price fairness.

This research seeks to address the circumstances that impact judgments about price fairness. Answers to this important question about price fairness are addressed within the context of varying dynamic pricing environments through the application of the representativeness heuristic (Tversky and Kahneman 1973, 1974) and fairness heuristic theory (Van den Bos 2001; Van den Bos et al. 1997). Two studies based on this framework are used to test predictions about the impact of various transaction characteristics (consumer, seller, time, and auctions) on fair perceptions in a dynamic pricing environment. Overall, we predict that consumer differences will lead to the most negative perceptions of price fairness and that auction formats will be the most acceptable context for price discrepancies.

Studies

Study 1. A 3 (price level) x 4 (purchase situation) mixed factorial design with price manipulated between subjects and purchase situation manipulated within subjects was employed. The three price levels include a comparison price 20 percent higher, 20 percent lower, and equal to the price paid by the target consumer. The four purchase situations reflecting various transaction characteristics discussed and were counterbalanced across subjects and conditions. Overall, the estimates of perceived price fairness and purchase satisfaction differed across the price conditions for each scenario. Moreover, the effects were most prevalent when lower prices were associated with either another customer or within the context of a different time. As predicted, in the auction prices were perceived as more fair, and all tests of mean differences between the auction scenario and the others were significant (p < .05).

Study 2. A 2 (purchase situation) by 3 (price level) between subjects designs was used in which time effects were manipulated as either the next day or one year ago in order to specifically investigate the impact of time differences. First, an overall MANOVA with perceived fairness and purchase satisfaction as the dependent variables, resulted in a significant interaction (Wilks lambda = 0.74, F-value = 10.63, p < .01). Subsequent 2 by 3 analysis of variance tests for each dependent variable revealed a significant interaction for both dependent variables were 11.55 (p < .01) for fairness and 21.73 (p < .01) for satisfaction showing that price differences in close temporal proximity were perceived as less fair than those over longer periods.

Discussion

The two studies presented offer some guidance as to what dynamic pricing circumstances are most likely to evoke negative fairness perceptions from a consumer. Study 1 demonstrated the important impact that information about another customer paying a lower price for the same product could have. Importantly, compared with the other transaction characteristics included in this research (seller, time, and price setter), differences between customers resulted in the greatest perceptions of unfairness and the lowest overall satisfaction. Study 1 also demonstrated that auction formats are becoming more accepted by consumers, and outcomes associated with auctions were the least likely to be perceived as unfair. Consumers likely attribute their outcome within an auction scenario to themselves, rather than the seller.

Study 2 demonstrated that consumers view price changes within very short periods of time (absent any explanation) as more unfair than price changes over a more extended period of time, showing less acceptance of dynamic pricing mechanisms that are not based upon price-discovery in which the consumer has input. Al-
though the present results provide evidence as to which transaction characteristics are most important to consumers in making fairness judgments, many questions still remain. For example, in these studies, consumers were specifically asked to report their fairness perceptions, but under what conditions do consumers spontaneously make fairness judgments? Furthermore, what type of attributions do consumers make when they encounter information revealing the presence of dynamic pricing, and how do these attributions affect fairness judgments?

Additional studies can address these questions and others related to understanding the relationship between dynamic pricing and perceived price fairness. Future studies can further test the transaction characteristics addressed in the present research, as well as exploring additional characteristics (Bolton et al. 2003; Xia and Monroe 2004) and various combinations of these characteristics that are used in the marketplace. As dynamic pricing becomes more widespread in use, it is critical that marketers understand how consumers will respond to these mechanisms.

REFERENCES


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American Marketing Association / Summer 2005 182
A NEED-SATISFACTION VIEW OF ANTECEDENTS TO ORGANIZATIONAL COMMITMENT IN EARLY VS. LATE TRANSITION ECONOMIES: THE MODERATING ROLES OF SALESPERSON COMPETITIVENESS AND CONTEXT

Cristian Chelariu, York University, Toronto
Rodney L. Stump, Towson University, Towson

SUMMARY

The present study explores how organizations can attract, motivate and keep valuable employees as members of their sales forces and also determines whether the focal relationships vary depending on whether the context is an economy in early (ETE) versus late transition (LTE). Specifically, we examine what sales force needs are salient in these two transition stages. As Eastern European countries follow what is essentially the same blueprint in their transition process (albeit at different speeds), companies may need to proactively change various organizational characteristics in order to match the shifting needs of their sales forces. Moreover, lessons learned in the more advanced countries on the path of transition may be relevant to apply in the future to what are now less advanced transition countries. Our study also examines whether an individual personal trait of salespeople, competitiveness, alters what needs must be satisfied in order to retain members of the sales force when considered along with the transition stage.

The conceptual basis for our study is Existence – Relatedness – Growth (ERG) theory (Alderfer 1972), which is based on the principle of a hierarchy of needs. Unlike Maslow’s version, ERG comprises three levels: existence (encompassing physiological and safety needs), relatedness (referring to affiliation and external esteem needs) and growth (internal esteem and self-actualization).

Our model includes three organization antecedents that correspond to the ERG levels of needs. These are: (1) pay adequacy, to address the satisfaction of existence needs; (2) supervisor support, to account for the satisfaction of relatedness needs; and (3) workplace autonomy, to account for satisfaction of growth needs. We posit that these perceived facets of the organizational setting hold the opportunity to satisfy the three ERG levels of needs, which in turn will have a sequential impact on other psychological work outcomes (PWO) (Brown and Peterson 1993; Singh et al. 1996; Singh 1998), i.e., job satisfaction predicts organizational commitment, which in turn predicts turnover intentions.

According to the congruence perspective, employees will adjust better when an organization’s characteristics matches their personal orientation (Brentz and Judge 1994), which may be a function of their national culture, economic conditions, and individual psychological makeup. Thus, we concurrently take into account two moderators that may reflect this orientation. One is at the macro-level, stage of transition, reflecting the expectation that some of the focal relationships may be context dependent (Kim and Oh 2002). We expect that in ETE, individuals will be concentrating on satisfying lower needs, whereas in LTE, individuals will be better able to focus on higher order needs (Strong and Nicholson 1998; Barnai and Teng 1996).

The other moderator is at the individual level, the salesperson’s competitiveness, which is a personality characteristic. Competitiveness refers to “the enjoyment of interpersonal competition and the desire to win and be better than others” (Spence and Helmreich 1983, p. 41). Competitive individuals represent an exception in the context of the ERG theory. If most people follow a progression from existence, to relatedness, to growth needs, competitive individuals are unique in that they attach less importance to relatedness needs, focusing instead on satisfaction of existence and growth needs. However, this pattern, too is expected to vary across the two settings.

The data for both the early and the late transition samples were measured from the salesperson’s perspective, based on a self-report questionnaire using the drop-off method for data collection. The ET sample was collected during 1997 in Romania, comprising 397 questionnaires for a 79 percent response rate. The LT sample was collected in Hungary during 2004. A total of 250 questionnaires were distributed and 185 usable questionnaires were returned for a 74 percent response rate.

To test our hypotheses, we followed the Ping (1996) procedure to test for moderator effects in two parallel structural equation models. The results of the two structural models provide support for the majority of the hypotheses we advanced and thus generally confirm the
applicability of the ERG framework in a transitional economy sales setting. As expected, the level of organizational commitment of salespeople in ETE depends primarily on the degree to which the organization meets their existence and relatedness needs, while for LTE salespeople it depends on the fulfillment of their relatedness and growth needs. Furthermore, these relationships tend to vary according to the relative competitiveness of the salesperson which also differed across the two samples. References available upon request.

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SUMMARY

In recent years, a dominant theme within the marketing practice literature has been the contention that organizational marketing has shifted from a transactional marketing orientation to a relational marketing orientation. The relational marketing orientation is believed to emphasize customer retention and management of long term relationships with customers and other partners in the value chain (Day and Montgomery 1999; Morgan and Hunt 1999; Webster 1999). This is in contrast to the transactional marketing orientation which emphasizes short-term transactional exchanges and the basic utilities of the marketing mix. Relational marketing perspective is normative in its assertion that differentiating marketing practice by the nature of customer served or product offered allows for more successful relational exchanges. Indeed, leading marketing scholars argue that relationship marketing represents a new paradigm for marketing practice (Kotler 1992; Sheth, Gardner, and Garret 1988; Webster 1992).

However, Coveillon, Brodie, Danaher, and Johnston (2002) argue that not all firms would practice relational marketing because the transition from transactional to relational marketing is bound to vary with the organizational context of the firm, such as the predominant customer served (consumer or business) and the nature of the predominant product offered (goods or service). Thus, although marketing professionals agree that the field is transitioning from transactional to relational marketing, there is uncertainty as to how to conceptualize contemporary marketing practices (CMP) with respect to whether transactional marketing is still relevant in today’s global market place, and also which firm is predominantly transactional and which is predominantly relational (Coveillon et al. 2002). This lack of consensus is due in part to the fact that very few studies exist that examine marketing practice across customers and product context (Coveillon et al. 2002) or across western industrialized and emerging markets Thus, there is a need to derive a contemporary marketing paradigm that is sensitive to all types of organizations across global markets and across all cultures.

In this research, we seek to contribute to the burgeoning literature on CMP by validating and extending the recent work by Coveillon et al. (2002) in three African nations: Ghana, Ivory Coast, and Uganda, and to repeat their study in the U.S. The validation relates primary to addressing the same general questions examined by the authors: (1) How do different types of firms relate to their markets in terms of their contemporary marketing practices? and (2) What is the relative emphasis on transactional and relational aspects of marketing? (Coveillon et al. 2002). The extension relates to a third research question: (3) Does organizational culture moderate the relative emphasis on transactional and relational aspects of contemporary marketing practice? We argue that marketing is a part of the broader organizational culture, and as such, the transition from transactional to relational marketing is contingent upon the type of predominant organizational culture of the firm. This argument is grounded in the competing value model within the organizational culture literature (Quinn and Rohrbaugh 1983), which relates to the effect of competing tensions and conflict on organizational change. According to this model, organizations with a more informal adhocracy or clan culture are more likely to encourage change because they value flexibility, spontaneity and individual initiative as well as market responsiveness. By contrast, organizations characterized as having hierarchy or market cultures value stability, maintenance of control through rules and regulations (Quinn and Rohrbaugh 1983). Given the paucity of prior empirical work on the issue, our study was guided by the following general hypothesis.

The more a marketing manager perceives the organizational culture as an adhocracy or clan (rather than a market or hierarchy), the more the organization is likely to encourage change because they value flexibility, spontaneity and individual initiative as well as market responsiveness. By contrast, organizations characterized as having hierarchy or market cultures value stability, maintenance of control through rules and regulations (Quinn and Rohrbaugh 1983). Given the paucity of prior empirical work on the issue, our study was guided by the following general hypothesis.

In both the African and U.S. samples, we found support for the argument of Coveillon et al. (2002) that CMP is heterogeneous in nature and not predominantly relational marketing in nature. Further, we found partial support for our argument that firms characterized as...
having clan or adhocracy cultures are more relational than transactional while firms characterized as having hierarchy or market cultures are more transactional than relational.

This research has significant implications for global marketing practice. Market opportunities in many emerging economies are becoming increasingly attractive to both local and Multinational firms because of projected high economic growth in these nations as compared to market opportunities in Western industrialized nations. The national cultures of these emerging nations are predominantly collective and, thus, the organizational context of firms in these nations is bound to be significantly different from individualistic cultures of Western industrialized nations. Therefore, the development of contemporary marketing programs that are sensitive to emerging organizations in collective cultures is of considerable importance for success in the global market place.

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ABSTRACT

This research assesses the after effect of the war in Iraq on an Arab population’s perception of French and American brand products. Our study focuses its analysis on four key variables: foreign policy, perceived national image (NI), product country image (PCI) and consumer ethnocentrism (CE).

INTRODUCTION

The war in Iraq and its subsequent military occupation divided the American people and the world into two clans. This conflict continues to polarize worldwide public opinion and viewpoints of foreign governments. Among the opponents of recent American foreign policy are France and Canada, traditional U.S. allies. In these countries, as in several others, recurring protests were changed by parts of their respective populations into straightforward anti-Americanism. Following these popular demonstrations and the French government’s refusal to stand behind American policy, an “anti-French” feeling sprang up in the United States, culminating with the notorious “Freedom Fries” movement. While at first glance this debate is not one of marketing, it is potentially quite relevant as it involves a shift in consumer behavior regarding their valuation of foreign products. This study falls exactly into this context.

In concrete terms, this study is interested in the impact of an unpopular American policy on products in a foreign country carrying an American brand name. The product chosen for this research is blue jeans. American brand blue jeans will be compared with brands from another country ostensibly having a better accepted foreign policy (in this case France) and with a national brand from the country chosen by this study, Morocco. This study’s uniqueness lies in its interest in examining a contemporary issue by inserting into it notions of foreign policy, national image (NI), product country image (PCI) and consumer ethnocentrism (CE).

PRESENTING CONCEPTS AND HYPOTHESES

Foreign Policy

Foreign policy relates to decisions made by the government of a country regarding issues beyond those of national policy and having an impact on international policy. Although commercial impacts can be intimately linked to foreign policies of an exporter country, this subject has seldom been approached in the current literature in international marketing. It is presumed here that a country’s foreign policy will have an impact on the perception consumers will have of said country. Since individuals often know foreign countries only from official speeches or prominent action taken on the international stage, foreign policy then risks influencing the image that many people make of this country. Thus, a foreign policy assessed favorably, or unfavorably, can alter the qualitative image people have of this country. We would argue that the more politically influential a foreign country, the more acutely its foreign policy decisions will determine the perception that people have of this country. In the context of the conflict in Iraq, worldwide opinion is clearly polarized on the subject of American military intervention. In June 2003, a study by the American institute PEW confirmed this fact. In particular, the Moroccan population clearly expressed its strong disagreement with American policy in Iraq and in the Middle East. Compared to the American position, French policy in these two matters is probably better accepted by Moroccans. This assumption is amplified by the close relations that France and Morocco have maintained historically. From there the first hypothesis follows:

H1: American international policy regarding the situation in Iraq and in the Middle East is disliked by Moroccans more than that of France.

National Image (NI)

National image (NI) is a notion seldom studied in marketing (Heslop, Papadopoulos, and Bamsosy 1993; Papadopoulou, Heslop, and Bennett 1993; Heslop, Papadopoulos, and Bourk 1998). National image is a general impression that people form of foreign countries. This evaluation rests on a number of characteristics of the country and its citizens, which may resemble stereotypes (Papadopoulos, Heslop, and Bennett 1993). These characteristics include factors such as economic development, way of life, culture, political regime, etc. The perception that consumers have of different countries is determined by their own culture, history and the information they have accumulated on these foreign countries, prompting them to assess countries in different ways, according to the proposed dimensions (Papadopoulos, Heslop, and Bennett 1993). Given the intense international media
coverage of the Iraq conflict, it is possible that the image of the assessed country (i.e., the United States) is tainted by its foreign policy. Additionally, the relationship between the United States and Israel, historically, has been a source of tension between the former and Arab countries. Consequently, the image of the United States will be assessed less favorably than that of France or Morocco, both countries that did not participate in the Iraqi conflict and that maintain a foreign policy more favorable towards Palestinians.

H₂: The national image (NI) of the United States is assessed more negatively than those of France and Morocco.

Product Country Image (PCI)

Product country image (PCI) refers to the evaluation that the consumers make of products originating from foreign countries. According to theory, consumers associate a particular image with the product by linking it to the image they make of its country of origin (COO) (Papadopoulos, Heslop, and Bennett 1993). Consumers, when assessing foreign products with a known national origin, will transfer attitudes that they have of the country (i.e., national image) to their evaluation of the country’s product (PCI). Ergo, a positive connotation attached to a country will translate into a positive assessment of products coming from this nation, which in turn could translate into an intention to purchase these products. The wealth of literature and studies in the field of COO (Heslop, Papadopoulos, and Bourk 1998) point out that, when faced with products of foreign origin, respondents generally favored the corresponding national product when their country belongs to the same category of nations to which it is compared (Al-Sulaiti and Baker 1998).

The evaluation of French and American products, in particular, has been the subject of a considerable number of studies (Al-Sulaiti and Baker 1998). The heterogeneity of results presented in this research depends largely upon the methodological criteria used. For instance, which product is assessed (a specific product, a class of products, or non-specific product), which countries are being compared (western countries vs. other western countries vs. developing countries vs. national product), how the product is evaluated (multidimensional or unified construct) and the national origin of the respondent. Papadopoulos, Heslop, and Graby (2000) propose that French products usually belong to the second group of industrialized countries, behind those from Japan, United States and Germany. From a technical standpoint (i.e., innovation, reliability, engineering), the American product predominated over its French counterpart, while the latter is favored on criteria such as exclusiveness, luxury, implied refinement and attractiveness to female consumers. When analyzing clothing or fashion products, French goods are then well positioned (Lumpkin, Crawford, and Kim 1985; Marticotte 2002). Studies performed in Arab countries (Badri, Davis, and Davis 1995; Bhuian 1997) come to the same conclusions.

Considering (a) the American national image, (b) a category of products where French brands could be favored (i.e., clothes, fashion, etc.) and (c) that Morocco belongs to a group of countries other than those most economically favored, it is supposed that:

H₃: The PCI of France will be superior to that of the United States and Morocco.

Consumer Ethnocentrism (CE)

One of the explanations for why national products may be favored against foreign ones lies in the level of consumer ethnocentrism (Shimp and Sharma 1987). These authors, (p. 280) define the notion: “In functional terms, consumer ethnocentrism gives the individual a sense of identity, feeling of belongingness, and, (…) an understanding of what purchase behavior is acceptable or unacceptable to the in-group.” So, much to the detriment of foreign products, consumers with a high level of ethnocentrism will favor buying local products for ethical, national and economic reasons. In the absence of certain local products, the consumers having a high level of ethnocentrism will seek products coming from a country culturally similar to their own (Watson and Wright 2000).

The possible influence of NI, PCI, and CE indeed shows its true potency when it has an impact on purchasing intentions and behaviors. The fourth hypothesis is concerned with the predictive power of each of these variables on intentions to purchase American, French, and Moroccan brands of blue jeans.

H₄: The willingness to buy American (French, Moroccan) blue jeans is explained by the NI of the United States (of France, Morocco), PCI of the American brand (French, Moroccan) and the CE of Moroccans.

This leads us to another hypothesis regarding the buying behavior of American branded blue jeans. Taking into account the presumed negative NI of the United States, negative PCI linked to an American brand and the CE of Moroccans, the intent to purchase American blue jeans will be less than that to buy blue jeans with a French or Moroccan brand name. These results would be in line with those found by Klein, Ettenson, and Morris (1998).

H₅: The intent to buy American brand blue jeans will be less than with French or Moroccan brands.
The last hypothesis is interested in the actual choice made by Moroccan consumers. Do the variables studied allow for categorization of blue jean buyers according to the purchase, American blue jeans or blue jeans with a non-American label? Presupposing that foreign policy, the NI of the United States, and the PCI of an American brand are negative, and that the CE acts against the purchase of foreign products, we propose that:

\[ H_6: \text{The purchase of American brand blue jeans, in comparison to a non-American brand, can be explained by the approval of American foreign policy, by a favorable perception of the American national image and its PCI, and will depend on the Moroccans’ CE level.} \]

**METHOD**

The product studied in this research, blue jeans, is one for which there is a large supply of international and national brands sold in Morocco. The popularity of this product transcends social classes, ages, gender, styles and consumption patterns. Another practical criterion of this product is that its nationality can easily be identified by the brand label, which is usually clearly visible. Finally, the internationalization of blue jeans as a consumer product was demonstrated in a questionnaire asking to which culture this product is linked. More than 98 percent of respondents replied that it was an international product—indeed, not necessarily linked to either oriental or Western culture.

**Measures**

To our knowledge, there is no standardized measure for foreign policy of a country in specialized literature. The scale used in this study is an adaptation of items used in the study of PEW of June 2003. The statements of the original scale deal exclusively with American policy. A French translation of these statements was made and a French equivalent of the situation was constructed. Finally, for some of them, Moroccan context was added. Altogether, eight statements measuring American policy and eight dealing with French policy, measured on a 5 point Likert scale, were used in this study.

The measure of national image was based on Papadopoulos, Heslop, and Bennett (1993)’s scale. In this study, fifteen statements constitute the final measurement, again using a 5 point Likert scale. Marticotte (2002), with a similar scale, obtained good reliability with Cronbach’s alphas of 0.81 and 0.76 for NI of the United States and France, respectively.

Although it is widely accepted that PCI is a multidimensional concept (Nagashima 1977), there is no single manner of tackling it effectively. The diversity of evaluation criteria is contingent upon the type of product in the study. The scale adopted in the present study was based on one introduced by Marticotte (2002), which measured the PCI of the dress category for different countries. The refined scale is composed of 6 statements measured on 5 point Likert scales.

Finally, CE was measured using CETSCALE (Shimp and Sharma 1987). The 17 statements in the original scale were translated into French and adapted to a Moroccan context. This scale systematically showed strong evidence of internal consistency in various international contexts.

**Sample and Procedure**

To establish a context, the chronology of the Iraq conflict can be reduced to three key dates: the official beginning of war, March 13, 2003; the official end of war, May 2, 2003, the capture of Saddam Hussein, December 14, 2003. Data collection took place between December 15, 2003 and February 4, 2004. The six page legal format questionnaire was composed of five blocks, one for every key concept of research and the fifth corresponding to the questions measuring the socio-demographic characteristics of the respondent. For practical reasons, the survey was set out and administered in French rather than Arabic.

The questionnaire was administered in various public places in Casablanca. This choice was based on a non-probabilistic convenience sample. Response time varied between 20 and 35 minutes, the respondents often liking to comment on their answers. The sample is predominantly composed of men, as local cultural mores make it easier to approach male respondents in public places. Two hundred and fifty questionnaires were completed (n = 250).

**RESULTS AND ANALYSIS**

The sample breaks down as follows. It is predominantly composed of men (70.8%), between 18 and 35 years old (75.2%), and having a university level education (53.6%). Almost three of every four respondents (74.4%) had bought at least one pair of blue jeans during the year prior to the study (mean = 2.12; standard deviation = 2.086). The vast majority of these respondents had at least one pair of blue jeans in their wardrobe (93.6%) with a mean of 4.05 pairs of jeans per respondent.

Table 1 presents statements measuring the foreign policy of France and the United States. French foreign policy received higher appreciation than the American policy on each of the assessed points, and differences in all cases (t-test, repeated measures) are statistically signifi-
cant at 0.000. These results tend to validate $H_1$, which stipulates that American foreign policy is less well appreciated by the Moroccans, than French policy is.

The national image (NI) of the United States, France, and Morocco was measured using the scale shown in Table 2. Generally speaking, the indicators of reliability are satisfactory, the Cronbach’s alphas varying from 0.61 (Morocco) to 0.73 (USA). NI of the United States is the least favored of all three countries (ANOVA; Sig = 0.000), with a mean of 3.12 for the fifteen statements. France and Morocco are perceived similarly (non significant difference at 0.05). Of the 15 individual statements, the NI of the United States is significantly superior (at 0.05) than the national image of the two other countries for only two statements: “This country is economically rich” and “I like music, films and television programs from this country.” For all ten other statements, it received the weakest response (all significant at the 0.000 level). These results support $H_2$. An additional question in the research establishes the variance in NI for all three countries since last year. In the case of the United States, it was “compared to last year, much more negative” (58.4%), while that of France remained “the same” (39.2%) and that of Morocco was “a little more positive” (42.8%).

The appreciation of blue jeans’ PCI for American, French and Moroccan brands is presented in Table 3. The Cronbach’s alpha for PCI of Morocco and France is respectable (0.698 and 0.692, respectively), and is weaker for American PCI (0.648). Contrary to what was presumed, American PCI (4.34) is statistically superior (ANOVA, repeated measures, sig of 0.000) to those of France (3.47) and Morocco (2.81). Thus, $H_3$ is rejected.

**TABLE 1**

<table>
<thead>
<tr>
<th>Evaluation of the American and the French Foreign Policies</th>
<th>U.S.</th>
<th>France</th>
<th>t Value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 I am worry that (…) will become eventually a threat for Morocco.</td>
<td>2.66</td>
<td>1.89</td>
<td>8.382</td>
<td>0.000</td>
</tr>
<tr>
<td>2 France did a good thing not to get military involved in Iraq. The United States, despite U.N.’s resolutions, were justified to attack Iraq.</td>
<td>1.52</td>
<td>4.70</td>
<td>32.862</td>
<td>0.000</td>
</tr>
<tr>
<td>3 The foreign policy of (…) tends to favor more Israel’s interests than Palestinians’</td>
<td>4.82</td>
<td>2.43</td>
<td>29.459</td>
<td>0.000</td>
</tr>
<tr>
<td>4 I am behind (…)’s efforts against terrorism.</td>
<td>1.90</td>
<td>3.52</td>
<td>7.185</td>
<td>0.000</td>
</tr>
<tr>
<td>5 The foreign policy of (…) in the Middle-east makes the regions more stable.</td>
<td>1.51</td>
<td>2.88</td>
<td>-7.887</td>
<td>0.000</td>
</tr>
<tr>
<td>6 (…) is an allied country of Morocco.</td>
<td>3.43</td>
<td>4.44</td>
<td>12.901</td>
<td>0.000</td>
</tr>
<tr>
<td>7 France does a good thing not to get involved in the rebuilding of Iraq. The United States were justified to take control of Iraq until peace and order come to place.</td>
<td>1.47</td>
<td>2.92</td>
<td>-8.64</td>
<td>0.000</td>
</tr>
<tr>
<td>8 France shows more respect toward Islamic countries than the United States do. The United States show more respect toward Islamic countries than France does.</td>
<td>1.89</td>
<td>3.97</td>
<td>11.609</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Scale:
1 = totally disagree
2 = disagree
3 = not agree no disagree
4 = agree
5 = totally agree
### TABLE 2
**Evaluation of the National Image (NI) of the United States, France, and Morocco**

<table>
<thead>
<tr>
<th>Country</th>
<th>France</th>
<th>U.S.</th>
<th>Morocco</th>
<th>F Value</th>
<th>sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 I know a lot about this country.</td>
<td>4.11</td>
<td>3.04</td>
<td>4.83</td>
<td>399.349</td>
<td></td>
</tr>
<tr>
<td>2 The people of this country are educated</td>
<td>4.47</td>
<td>3.27</td>
<td>2.76</td>
<td>411.515</td>
<td>0.000</td>
</tr>
<tr>
<td>3 The people of this country are hard working.</td>
<td>4.10</td>
<td>4.14</td>
<td>3.29</td>
<td>36.201</td>
<td>0.000</td>
</tr>
<tr>
<td>4 This country is rich.</td>
<td>4.28</td>
<td>4.85</td>
<td>2.18</td>
<td>1449.869</td>
<td>0.000</td>
</tr>
<tr>
<td>5 This country is safe.</td>
<td>3.96</td>
<td>2.91</td>
<td>4.36</td>
<td>124.410</td>
<td>0.000</td>
</tr>
<tr>
<td>6 This country is peaceful.</td>
<td>3.86</td>
<td>2.08</td>
<td>4.58</td>
<td>407.562</td>
<td>0.000</td>
</tr>
<tr>
<td>7 This country is democratic.</td>
<td>4.12</td>
<td>3.42</td>
<td>3.02</td>
<td>94.745</td>
<td>0.000</td>
</tr>
<tr>
<td>8 This country is the ideal country to live in.</td>
<td>3.62</td>
<td>2.62</td>
<td>3.62</td>
<td>70.113</td>
<td>0.000</td>
</tr>
<tr>
<td>9 We can trust people of this country.</td>
<td>3.36</td>
<td>2.62</td>
<td>3.40</td>
<td>53.823</td>
<td>0.000</td>
</tr>
<tr>
<td>10 Morocco should tie stronger economic and cultural bonds with this country.</td>
<td>4.23</td>
<td>3.93</td>
<td>Nd</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>11 The people of this country are friendly.</td>
<td>3.72</td>
<td>3.34</td>
<td>3.96</td>
<td>24.189</td>
<td>0.000</td>
</tr>
<tr>
<td>12 The people of this country have good taste.</td>
<td>4.15</td>
<td>3.02</td>
<td>3.88</td>
<td>124.805</td>
<td>0.000</td>
</tr>
<tr>
<td>13 The people of this country are religious.</td>
<td>2.36</td>
<td>2.24</td>
<td>4.18</td>
<td>316.02</td>
<td>0.000</td>
</tr>
<tr>
<td>14 I love the music, movies and TV programs coming from this country.</td>
<td>2.63</td>
<td>3.67</td>
<td>2.98</td>
<td>42.923</td>
<td>0.000</td>
</tr>
<tr>
<td>15 It is a good thing that habits and customs of this country spread in Morocco.</td>
<td>1.77</td>
<td>1.58</td>
<td>Nd</td>
<td>2.716</td>
<td>0.007</td>
</tr>
</tbody>
</table>

Overall mean index<sup>a</sup> | 3.65   | 3.11 | 3.62    | 141.007  | 0.000|

Scale:
1 = totally disagree
2 = disagree
3 = not agree no disagree
4 = agree
5 = totally agree
<sup>a</sup>: mean difference between France and Morocco is not significant at 0.05

### TABLE 3
**Evaluation of PCI for France, U.S., and Morocco**

<table>
<thead>
<tr>
<th>Brands of this country …</th>
<th>France</th>
<th>U.S.</th>
<th>Morocco</th>
<th>F value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Are of good quality</td>
<td>3.83</td>
<td>4.68</td>
<td>2.95</td>
<td>228.587</td>
<td>0.000</td>
</tr>
<tr>
<td>2 Are worldwide known</td>
<td>3.42</td>
<td>4.90</td>
<td>1.93</td>
<td>1098.57</td>
<td>0.000</td>
</tr>
<tr>
<td>3 Are prestigious</td>
<td>3.38</td>
<td>4.20</td>
<td>2.50</td>
<td>188.748</td>
<td>0.000</td>
</tr>
<tr>
<td>4 Show a positive image</td>
<td>3.20</td>
<td>4.07</td>
<td>2.42</td>
<td>181.270</td>
<td>0.000</td>
</tr>
<tr>
<td>5 Offer a good quality/price ratio&lt;sup&gt;a&lt;/sup&gt;</td>
<td>3.64</td>
<td>3.92</td>
<td>4.01</td>
<td>13.499</td>
<td>0.000</td>
</tr>
<tr>
<td>6 I have an overall positive evaluation</td>
<td>2.34</td>
<td>3.64</td>
<td>3.04</td>
<td>95.999</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Overall mean Index | 3.47   | 4.34 | 2.81    | 453.284  | 0.000|

Buying intents<sup>a</sup> | 2.34   | 3.64 | 3.78    | 10.551   | 0.000|

Scale:
1 = totally disagree
2 = disagree
3 = not agree no disagree
4 = agree
5 = totally agree
<sup>a</sup>: mean difference between US and Morocco is not significant at 0.05
Although Moroccans prefer French foreign policy and have more positive images of France and Morocco than of the United States (as countries), they gave their highest appreciation to the American brand product.

The fourth hypothesis sought to explain the combined influence of national image (NI), PCI and CE on the willingness to buy American, French and Moroccan brands of blue jeans. This hypothesis was measured with multiple regressions using the Stepwise method where the dependent variable is represented by the mean rating of every PCI. The reliability of the CE scale is very high (Cronbach’s alpha of 0.949). The CE mean is 63.91 (sd = 26.19) on a scale varying from 17 (least ethnocentric) to 119 (highly ethnocentric). The mean is slightly less than the arithmetic mean of 68. This result is typical of studies drawing from an educated sample (Sharma 1984; Good and Huddleston 1995; Kucukemiroglu 1999), which is usually more open to foreign cultures. Table 4 shows that for all 3 models, the independent variables are significant at 0.05, which confirms H4. Two observations are to be drawn from these results. First, the French one is the most explanatory of models (adjusted R² of 0.442). Second, the American model is distinctive in the order of importance of variables, which differs from that of France and Morocco. Thus, the intention to purchase an American brand is primarily determined by the level of CE. In the other two models, this variable arrives last. Additionally, there is a negative relation between CE and the purchase intention. That is, the more ethnocentric the consumer, the less likely he will be to buy American brands, which is in keeping with the theory. Contrastingly, for the other two models, the link is positive, which is not very surprising for the Moroccan product but more so for the French brand product.

The purchase intents of an American brand (mean of 3.64) are slightly less than those for a Moroccan brand (average of 3.78), but this difference is not statistically significant (t = -0.930; sig = 0.324). Nevertheless, the purchase intents for an American brand are statistically superior (t=10.551; sig = 0.0000) to that of a French brand (mean = 2.34). Therefore, H5 is clearly rejected.

The sixth hypothesis is interested in key variables of the study and their potential in explaining the purchase of American brands, or non-American brands, of blue jeans. To test this hypothesis, only the results of respondents who had bought at least one pair of blue jeans in the course of the previous year were analyzed. The corresponding sample of 187 purchasers was later divided into two groups, those having bought an American brand (n = 82) and those who did not buy an American brand (n = 105). A comparison of means was performed. Results appear in Table 5.

Three variables of foreign policy explain significant differences (sig = 0.05) between both groups of purchasers. These statements do not have any direct link with the situation in Iraq. In fact, they involve relations between Morocco and the United States, and the Middle East region in a more general sense. As anticipated, the level of CE and a negative image of the United States deter consumers from purchasing American blue jeans. On the other hand, the evaluation of PCI does not have an impact on the behavior of purchasing. H6 is therefore partly validated.

CONCLUSION AND DISCUSSION

This study confirmed the general observation that in an Arab country American foreign policy concerning the conflict in Iraq is seen more negatively than French foreign policy (H1). Nevertheless, the impact of this variable seems limited in relation to Moroccans’ actual purchasing behavior (H2). In fact, as long as the respondents perceive the United States as non-threatening and an ally of Morocco, the purchasing of an American brand blue jeans will not be much affected. The NI of the United States is substantially more negative than those of France and Morocco (H3), and this perception has a negative influence as much on the intention to purchase an Ameri-

<table>
<thead>
<tr>
<th>TABLE 4</th>
<th>Regression Models of Buying Intents</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>R2 Adjusted = 0.379</td>
</tr>
<tr>
<td>Beta</td>
<td>t value</td>
</tr>
<tr>
<td>NI</td>
<td>0.299</td>
</tr>
<tr>
<td>PCI</td>
<td>0.169</td>
</tr>
<tr>
<td>CE</td>
<td>-0.391</td>
</tr>
<tr>
<td>constant</td>
<td>5.467</td>
</tr>
<tr>
<td>France</td>
<td>R2 Adjusted = 0.442</td>
</tr>
<tr>
<td>Beta</td>
<td>t value</td>
</tr>
<tr>
<td>NI</td>
<td>0.237</td>
</tr>
<tr>
<td>PCI</td>
<td>0.499</td>
</tr>
<tr>
<td>CE</td>
<td>0.227</td>
</tr>
<tr>
<td>constant</td>
<td>-4.998</td>
</tr>
<tr>
<td>Morocco</td>
<td>R2 Adjusted = 0.240</td>
</tr>
<tr>
<td>Beta</td>
<td>t value</td>
</tr>
<tr>
<td>NI</td>
<td>0.201</td>
</tr>
<tr>
<td>PCI</td>
<td>0.344</td>
</tr>
<tr>
<td>CE</td>
<td>0.133</td>
</tr>
<tr>
<td>constant</td>
<td>-0.353</td>
</tr>
</tbody>
</table>
can brand (H4) as on actual purchasing behavior (H6). The image that Moroccans have of the United States, which has deteriorated over these last years, seems to be the result of a long-embedded perception, potentially exacerbated by the more recent events in Iraq.

The PCI of an American brand proved to be the highest of all (H3). This variable also proved to be the least important in explaining the purchase intents of an American brand (H4), while it is the most important with the French and Moroccan models. Furthermore, both purchasers and non-purchasers of American brands perceived PCI of an American brand in a similar manner (H6). These results tend to indicate that the appreciation of an American branded product is not a key factor in the intent and actual purchasing of an American brand. Blue jeans are a product of mass consumption. The brand is clearly visible and the COO of this garment could be easily deduced from that brand. In spite of a negative American NI, as perceived by the respondents, the purchase intent of American blue jeans is the highest of the studied countries (H4). This situation, apparently paradoxical for some, is congruent with observations made by Guyon (2003), who stated that anti-Americanism was not necessarily translated into negative commercial consequences. Klein, Ettenson and Morris (1998) showed that although the Chinese population offered positive evaluations of Japanese products, a historic aversion toward this country dissuaded them from buying its goods. Moroccans, on the other hand, were able to separate their feelings toward American foreign policy and the NI of the USA from their evaluation of the PCI. The high PCI of an American brand may be explained by a certain pride one enjoys whenever buying a product with the intrinsic quality of an American brand. In this study, respondents’ evaluation of the United States did not have a negative effect on their willingness to buy American products. Obviously, Moroccans do not approve of American foreign policy nor do they give a high ranking to the NI of the United States. However, this has not translated into hostility toward American products to the point of boycotting them. On the contrary, they show more willingness to buy American blue jeans than French ones. One explanation for this may be that Moroccans do not consider the United States as a threat to Morocco. Also, the current Moroccan market for the chosen product can favor this situation. When respondents were asked to identify their reference brand for the evaluation of American, French and Moroccan made blue jeans, nearly all (98.8%) identified “Levi’s” as the American brand they had in mind. This brand dominates the market in Morocco today. When it comes to identifying a French brand, responses are much more fragmented. Twenty-two different brands were mentioned (some were in fact not even French) and 107 respondents were unable

TABLE 5
Effects of Foreign Policy (FP), NI, PCI and CE on American Branded Blue Jeans

<table>
<thead>
<tr>
<th></th>
<th>Buyer of American Brand (mean)</th>
<th>Buyer of Non-American Brand (mean)</th>
<th>t-value</th>
<th>sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP1</td>
<td>2.81</td>
<td>2.09</td>
<td>3.356</td>
<td>0.001</td>
</tr>
<tr>
<td>FP2</td>
<td>4.90</td>
<td>4.84</td>
<td>1.067</td>
<td>0.287</td>
</tr>
<tr>
<td>FP3</td>
<td>1.45</td>
<td>1.48</td>
<td>-0.175</td>
<td>0.861</td>
</tr>
<tr>
<td>FP4</td>
<td>1.33</td>
<td>1.61</td>
<td>-1.918</td>
<td>0.057</td>
</tr>
<tr>
<td>FP5</td>
<td>1.40</td>
<td>1.66</td>
<td>-2.146</td>
<td>0.033</td>
</tr>
<tr>
<td>FP6</td>
<td>1.96</td>
<td>1.95</td>
<td>0.058</td>
<td>0.954</td>
</tr>
<tr>
<td>FP7</td>
<td>3.31</td>
<td>3.70</td>
<td>-2.093</td>
<td>0.038</td>
</tr>
<tr>
<td>FP8</td>
<td>1.97</td>
<td>1.91</td>
<td>0.265</td>
<td>0.791</td>
</tr>
<tr>
<td>NI</td>
<td>3.08</td>
<td>3.24</td>
<td>-2.275</td>
<td>0.024</td>
</tr>
<tr>
<td>CPI</td>
<td>4.35</td>
<td>4.39</td>
<td>-0.577</td>
<td>0.564</td>
</tr>
<tr>
<td>CE</td>
<td>66.25</td>
<td>56.16</td>
<td>2.739</td>
<td>0.007</td>
</tr>
</tbody>
</table>

Scale:
1= totally disagree
2= disagree
3= not agree no disagree
4= agree
5= totally agree
FP1 = First item of the foreign policy scale : see Table 1
to identify one. In terms of their own national products, 65 percent of respondents were unable to identify a specific Moroccan brand of blue jeans. In this study, respondents obviously assessed PCI of Levi’s rather than that of a generic American brand. American blue jeans, in this case Levi’s, exemplify certain American values which, apparently, younger respondents in this study are comfortable with. This assumption is consistent with attitudes respondents display towards media from the United States, measured by the statement, “I like music, films and television programs of this country” in the NI scale. On the other hand, as measured with the last statements of the NI scale, respondents feel that American ways and customs (no more than French ones) must not spread into Moroccan culture. This may explain why Moroccan CE is a fundamental variable in the purchase intent (H₆) and in the purchasing of an American brand (H₅). Regardless of what perception they have of the United States, the highly ethnocentric Moroccan consumer will reject an American alternative simply because it is not Moroccan (or French).

It is obvious that the results of this study call for caution. More research, studying another product, must be performed. Nevertheless, the results of this study do clearly demonstrate that unpopular American policies and a less favorable national image do not automatically result in detrimental business consequences—at least in the short run. However, it is also clear that American brands stand to gain from a more positive national image.

**REFERENCES**


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THE EFFECT OF CONSUMER CONFUSION PRONENESS ON WORD-OF-MOUTH, TRUST, AND CUSTOMER SATISFACTION

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SUMMARY

Consumer sovereignty assumes that consumers have adequate product information and are able to understand that information in order to make an informed choice. However, this is not the case when consumers are confused. This paper examines consumers’ general propensity to be confused from marketplace information and its effect on word-of-mouth, trust and satisfaction. A three component conceptual model of confusion proneness is developed, operationalized and validated. Using structural equation modeling, the results support the three dimensions of similarity, overload and ambiguity confusion proneness which have a significant impact on word-of-mouth behavior, trust, and customer satisfaction. Implications for consumer policy and education are discussed.

Today’s markets are characterized by; a plethora of choice, an abundance of marketing communications, decreasing inter-brand differences, increasing complexity of information and its sources and increasing search costs, consumers can find information processing for some purchasing tasks confusing. Consumer confusion is relevant to educators and policy makers because confused consumers are less likely to make rational buying decisions and to choose products offering the best quality or best value for money (e.g., Jacoby and Morrin 1998; Mitchell and Papavassiliou 1999). In addition, consumer confusion has been associated with other consequences of economic relevance to companies, such as, negative word-of-mouth (e.g., Turnbull et al. 2000), dissatisfaction (Foxman et al. 1990), and decreased loyalty (Foxman et al. 1990; Mitchell and Papavassiliou 1999). Word-of-mouth, decreased trust, and decreased customer satisfaction are among the most frequently mentioned and most damaging outcomes and are therefore considered in the proposed model and empirical study. Drawing on Walsh et al. (2002), we develop definitions for a multidimensional conceptualization of consumer confusion proneness which encompasses dimensions of similarity, overload and ambiguity.

Consumer confusion can have several sources. For example, advertisements, interpersonal communications, the store environment and product information which are very similar can cause confusion. Similar stimuli cause consumers to believe mistakenly, for example, that the manufacturer of product A also manufactured product B. Some authors refer to ‘consumer confusion’ without associating it with similarity and overload and stress different aspects, such as; product complexity (e.g., Cahill 1995), ambiguous information or false product claims (e.g., Golodner 1993; Kangun and Polonsky 1995; Chryssochoidis 2000), non-transparent pricing (e.g., Berry and Yadav 1996) or poor product manuals (e.g., Glasse 1992), all of which cause problems of understanding on part of the consumer and are related to the concept of cognitive unclarity (Cox 1967). Ambiguity-confusion prone consumers are likely to infer, or to be unclear about, product characteristics that are different than the actual product characteristics. From this conceptualization we develop nine hypotheses relating different types of confusion proneness to our outcomes of word-of-mouth, trust and macro satisfaction.

Method

In the present study, confusion proneness is not measured in a specific context at a point-in-time, but as an individual difference characteristic. An instrument was developed from a mix of original and adapted scale items derived from other confusion studies to provide an overall assessment of consumers’ confusion proneness and its three dimensions (i.e., similarity, overload and ambiguity). A qualified convenience sample of 264 male and female and different aged consumers was drawn to represent the shopping public from a major northern German city and given an on-street interview. The appropriateness of the 26 items for explaining the three consumer confusion proneness traits was tested using confirmatory factor analysis. The conceptual model was tested simultaneously with LISREL 8.52. The global fit statistics indicated that the model represents the data well, with GFI = .944, AGFI = .921, RMR = .092, RMSEA = .085, and CFI = .934.

Results and Discussion

By explaining 25 percent of word-of-mouth, 36 percent of trust, and 38 percent of the customer satisfaction construct, the relevance of consumer confusion proneness for consumer behavior is demonstrated. The similarity confusion proneness trait has a strong negative impact on
customers’ word-of-mouth behavior, trust and macro satisfaction. However, overload confusion proneness had a significant positive impact on word-of-mouth, supporting the notion that overload-prone consumers involve others in the decision-making to add expertise or to help narrowing the choice set. Overload confusion proneness was found to have a negative impact on satisfaction and ambiguity-confusion proneness does have a significant positive impact upon word-of-mouth and trust.

One implication is for consumer education which is the process of gaining the knowledge and skills needed in managing consumer resources and taking actions to influence the factors which affect consumer decisions. Our framework offers three traits of consumer confusion proneness that can be interpreted as the focal point of future educational activities. However, we must consider the sample limitations in terms of size, representativeness, and country effect. References are available upon request.

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SUMMARY

Teens report that parents were the single most influential factor in teen sexual decision making (Moore et al. 2002; Mitchell et al. 2004) and positive parent-family relationships help prevent teens from engaging in risky behaviors, including sexual intercourse (Blum, Beuhring, and Rinehart 2000). This study marks one of the first attempts to understand how to reach parents.

Socialization and parental style (Baumrind 1991) serve as the primary theoretical framework for this study. Protection Motivation (Rogers 1975) is also utilized as a guide to the creation of marketing messages tested in concert with parental style.

Parental style refers to parents’ socialization orientation (Baumrind 1991). Four parental styles can be formed by juxtaposing two orthogonal dimensions that represent how parents socialize their children. These dimensions are restrictive (versus permissive) and warmth (versus hostile). An authoritative parent manifests restrictive and warm orientations, while authoritarians are restrictive and hostile (not warm). Indulgents exhibit warmth toward children and are permissive while neglecting parents are hostile and permissive. Based on Carlson and Tanner 2004:

H1: Parental style is related to intentions to communicate such that authoritative and indulgent parents will intend to communicate more with their teens and participate in a parenting program than will authoritarian and neglecting parents. Similarly, attitude toward the ad will be more favorable for authoritative and indulgent parents compared to authoritarians and the neglecting.

H2: There is a significant positive effect on intentions for threat, such that the most favorable attitude toward the ad and the strongest intentions to attend a parent program about communicating with teens about sex will be exhibited by parents who watch the high threat version than for parents who watch the low threat version.

LaTour and Tanner (2003) found that parents were more likely to respond to a threat-appeal if a highly vivid portrayal was used. Based on that study, we also expect an interaction effect.

H3: High vividness will yield greater intentions to communicate with teens, to participate in parent programs, and most favorable attitude toward the ad for those in the highly vivid group.

H4: An interaction effect will be observed that those who receive the high threat, high vivid treatment will express the highest level of intentions and most favorable attitude toward the ad; those who receive the low threat, low vivid treatment will express the lowest level of intentions and least favorable attitude toward the ad.

Authoritative and Indulgent parents are more likely to intend to communicate with their children about sex and abstinence, due to their greater propensity to communicate, in general with children. Further, it seems likely that parental style will moderate the effects of threat and vividness, extenuating the influence of parental style. Thus we hypothesize the following:

H5: Parental style will moderate the effects of threat and vividness, such that authoritative and authoritarian parents will respond more strongly to high threat and high vivid messages, and exhibit the most favorable attitude toward the ad.

Following eight focus groups and a pre-test, four versions of a TV ad were shown to different groups. The versions were either high or low threat and high or low vivid.

The initial parental style model (see Table 7), was significant ($p < .000$). Subsequent univariate tests demon-
strated that a marginally significant difference existed between parental style and intention to participate and a significant difference existed relative to intention to communicate. Authoritative and indulgent styles (H1) are most likely to participate and communicate with their children. No significant difference was found between these two groups.

Threat appears to be the driving force as it has a significant impact on intent to participate in the program, intent to communicate and attitude toward the ad (H2). Neither the vividness main effect (H3) nor the interaction effects were significant (H4).

Interaction effects with parental style were significant for intentions to communicate, but not intentions to participate or attitudes toward abstinence. Examination of the intentions to communicate means suggests that authoritarians react most strongly to high threat and high vivid presentation, while indulgents and authoritatives seem to react negatively to vivid information when also confronted with a high threat. Neglectings tend to not react to any message.

This study integrates threat and vividness with the effects of parental style. The portrayal of a threat has varying influence on parents, based on their parental style. Parental style influences the choice of coping responses, mediating the impact of a threat message. Segmenting on the basis of parental style is one obvious solution for practitioners, but this study raises questions about what will work with some parental styles. We can recommend that vivid threat appeals may work with authoritatives. That same portrayal may not work with authoritarians and indulgents. Future research should consider the role of self-efficacy. More work is also needed to understand what types of appeals would work to encourage more active parenting among parents whose style is neglecting, and who seem immune to threat appeals, no matter how vividly portrayed. References available upon request.

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CUSTOMER PRIVACY PROTECTION: AN ETHICAL ORIENTATION AND MARKETING CONTROL PERSPECTIVE

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SUMMARY

The notion of relationship marketing has grown steadily in importance in the marketing literature (e.g., Dwyer, Schurr, and Oh 1987; Ganesan 1994; Lemon, White, and Winer 2002). Advances in information technology have considerably bolstered the institutionalization of the relationship marketing approach (Winer 2001). The most visible and prolific technological manifestation of this is in customer relationship management (CRM). CRM allows marketers to monitor customers and build a historical record of a customer’s behavior, which can then be utilized to sell future products by the firm or its partners (Thomas, Blattberg, and Fox 2004). This close surveillance of customer behavior is a genuine cause for concern with customers (e.g., Phelps, Nowak, and Ferrell 2000; Rust, Kannan, and Peng 2002). Not all firms respond to this concern in a similar fashion. A critical question then arises: why do some firms take affirmative steps to protect their customers’ privacy while others do not? And, what are the organizational drivers of customer privacy protection (CPP)? The purpose of this paper is to examine the intrinsic organizational characteristics that lead some firms to provide greater levels of CPP than others. To fill this research gap, we turn to two critical areas that impact how a firm regards the issue of CPP: (a) the firm’s ethical orientation, and (b) its marketing control mechanisms.

The ethical orientation of a firm is one of the factors that influence the degree of CPP offered by a firm. Most of the ethical theories discussed in the marketing literature are based on the two traditions in moral philosophy: deontological ethics and teleological ethics (Hunt and Vitell 1986). Deontological ethical theories are based on the belief that there is a universal rightness and wrongness of every action and that it is our duty to obey these moral laws (Kant 1959; Robin and Reidenbach 1987). Teleological ethical theories are based on the idea that the consequences of a particular act determine if the act is moral (Hunt and Vitell 1986). The ethical orientation of a firm represents the deeper moral reasoning behind how a firm addresses organizational issues (Hunt, Wood, and Chonko 1989) and therefore will influence how it addresses issues of CPP.

The type of marketing control mechanism employed by a firm is the other factor that influences the degree of CPP offered by a firm. Scholars in marketing have referred to control as a managerial activity operating on two dimensions, viz., control of marketing outputs and control of marketing processes (Jaworski 1988). Output controls require managers to set performance standards, evaluate actual results, and take corrective action when necessary. Process controls require managers to work closely with employees to develop and direct both activities and capabilities (Challagalla and Shervani 1996). Since the control mechanisms employed by a firm determine key procedural elements of a firm, the type of control system implemented by a firm will impact the extent of CPP offered by a firm.

The expected interactions between a firm’s ethical orientation and its marketing control mechanism with regards to how a firm addresses the issue of CPP are illustrated in Figure 1.

We argue that both the control mechanisms and the ethical orientation of a firm have a direct impact on the extent of CPP offered by a firm. The extent of CPP offered is defined in terms of the level of formal privacy policies offered by a firm. Based on the conceptual framework, four propositions are offered that outline the relationships between a firm’s ethical orientation and its control mecha-
nism and their effects on the level of CPP provided. For instance, a firm that emphasizes both output control mechanisms and a teleological ethical orientation will be concerned with minimizing anything that may prevent it from achieving its results, and thus will offer low levels of CPP. Likewise, a firm that emphasizes both process control mechanisms and a deontological ethical orientation will take a stronger view on clarifying and upholding the processes of the firm. Because the firm will require CPP policies that are clearly spelled out and devoid of any ethical vagueness, it will favor high levels of CPP. For managers, this paper highlights two of the factors that affect customer privacy protection. If a firm wants to provide a particular level of CPP, it may have to align its policies not only with its ethical orientation, but also with its marketing control. References available upon request.

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CUSTOMER DIFFERENCES BETWEEN HIGH AND LOW INVOLVED FREQUENT FLYERS

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SUMMARY

Most airlines believe that frequent flyer programs are an essential competitive tool to win customers. But are they correct? Are frequent flyer miles really a key product attribute that customers consider when making travel plans? There are two literature streams from which we can draw to improve our understanding of how customers are influenced by these programs.

First, the involvement literature suggests that frequent flyers have different levels of involvement with their frequent flyer programs based on the number of miles they have accumulated (Houston and Rothschild 1978). Second, the loyalty literature gives us multiple ways to measure customer loyalty. Chaudhuri and Holbrook (2001) developed a comprehensive model to study both the attitudinal component of loyalty and the behavioral component of loyalty by measuring the price premium and market share of a particular brand.

Research has shown that loyalty program members have a positive attitude toward these programs because of the rewards that are offered and the perceived value that they receive from being members (Liebermann 1999). Research has also shown that reward program members identify with a company more strongly than do non-members, because they consider this membership to have some privileges (Oliver 1999).

Eighty-seven MBAs graduates are contacted to participate in this study. Subjects first answered a summated four-item involvement scale used in the past to measure product class developed by Beatty and Talapade (1994). The study sample is divided into two groups (low involvement group and high involvement group) based on a median split of their responses on the involvement scale.

Empirical results show that as individuals become more involved with their frequent flyer programs, they accumulate the majority of their miles on their top two airlines. A follow up conjoint study shows that the high involved and low involved flyers differed in how they rate the importance of different product attributes associated with a commercial flight. High involved flyers believe that price was significantly less important than low involved flyers. Price is the most important attribute for the low involved flyers and convenience was the most important attribute for the high involved flyers.

The results of the conjoint also show the importance subjects place on the immediate rewards of time over the delayed rewards of frequent flyer miles. In our study, flight times from Washington DC to San Francisco, CA range from five and a half hours for a direct flight to over ten hours for a flight that made two stops. Only three airlines offered direct flights between these two cities. From a managerial perspective, this study shows that airlines that do not offer long distance direct flight are at a competitive disadvantage to those that do in attracting a large group of regular flyers.

REFERENCES

THE LOYALTY-SATISFACTION RELATIONSHIP: NEW DIRECTIONS AND A RESEARCH AGENDA

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SUMMARY

As there is a considerable amount of extant literature about loyalty where definitions and measurement scales abound, the phenomenon seems to manifest itself in two distinct ways – loyalty comprises both an emotional attachment and behavior (Reynolds and Arnold 2000). This research also examined 56 empirical studies and found that the measures can be summarized into specific dimensions, including continuance, word-of-mouth, price sensitivity, and emotional dimensions.

What is Loyalty?

The Dick and Basu (1994) model conceptualized loyalty as a causal relationship from relative attitude to repurchase intentions. They look at loyalty as a relationship because defining it as a single construct runs the risk of capturing variance from other situational factors and viewing it as an affect-behavior relationship allows investigation of the phenomenon from a causal perspective, leading to greater understanding of the antecedents and consequences of the relationship. From the loyalty literature base as well as Dick as Basu’s (1994) causal conceptualization, loyalty is defined as the strength of the relationship between the customer’s affective commitment toward the seller and the repeat purchasing behavior with the seller.

The commitment literature provides a strong rationale to study the loyalty relationship because of its importance in distinguishing the difference between loyal behavior and just repeat purchasing (Jacoby and Kyner 1973; Reynolds and Arnold 2000). Day (1969) contends that true loyalty exists only when there is commitment to a brand or product. Therefore, affective commitment is defined as the strength of emotional attachment and positive feelings that a customer has for a supplier. Loyalty is also demonstrated by the purchasing pattern over time (Dick and Basu 1994). Hence, purchasing behavior is an essential component of loyalty and defined as the likelihood of using a supplier’s products or services again in the future.

It is logical to assume that customers with a large degree of affective commitment will continue to purchase from a supplier. However, there is also evidence that a customer may remain loyal (behaviorally) even when dissatisfied (Oliva, Oliver, and MacMillan 1992). Thus, it is important to understand what influences the strength of the relationship between affective commitment and purchasing behavior. This research contends that calculative commitment is a moderating variable between affective commitment and purchasing behavior and is defined as the extent to which a customer perceives the need to maintain a relationship due to costs associated with leaving. (Geyskens et al. 1996; Verhoef, Franses, and Hoekstra 2002). It entails the rational component that weighs the benefits associated with continuing the relationship and the costs associated with leaving it (Gilliland and Bello 2002). In other words, the greater the calculative commitment, the less influence affective commitment has on purchasing behavior.

Satisfaction-Loyalty Relationship

Although much of the academic literature concurs that satisfaction is a mediating variable to loyalty, research has now begun to demonstrate more complex (i.e., nonlinear) structures (Homburg and Giering 2001). Anderson and Mittal (2000) emphasize that failing to account for this non-linear relationship may lead to inconclusive and contradictory findings. The general view is that increasing levels of satisfaction beyond some acceptable level does not result in a proportionate increase in share of choice (Neal 1999). For example, Fornell (1992) found an asymmetric relationship and contended that the satisfaction-loyalty link is nonlinear because the impact of satisfaction on repurchase intentions is greater at the extremes. Similarly, Coyne (1989) implies that there are loyalty thresholds, and satisfaction has to be high enough to encourage loyalty, but also has to be low enough to diminish loyalty.

This stream of research, however, views loyalty from a behavioral perspective. Thus, this paper contends that the relationship between satisfaction and purchasing behavior is nonlinear – high satisfaction yields high purchasing behavior, low satisfaction yields low purchasing behavior, and moderate satisfaction does not affect purchasing behavior. Alternately, more satisfied customers will be more affectively committed to the supplier. For instance, Wetzels, Ruyter, Birgelen (1998) found a significant relationship between satisfaction and affective commitment. Similarly, Bloemer and Kasper (1995) also found a positive relationship and suggest that affective commitment differentiates between true loyalty and spurious loyalty. Therefore, this paper asserts that there is a
positive, linear relationship between satisfaction and affective commitment.

Conclusion

The growing intensity of competition has companies changing focus from attracting new customers to improving loyalty among existing customers, and retaining customers over their life contributes to enhanced profitability (Bruhn and Grund 2000). Although loyalty has been suggested as the appropriate way to measure long-term relationships, there is a lack of understanding about how or why a sense of loyalty develops. The purpose of this paper is to review the loyalty literature and to derive a theoretically sound conceptualization of the construct. In addition, the satisfaction literature is reviewed to further clarify the contradictory evidence about the satisfaction-loyalty relationship.

While a growing literature base has added significant insight, there still remains some ambiguity about conceptualizations and measurements, and further testing is required to explore these complex relationships. References available upon request.

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CUSTOMER SATISFACTION MONITORING SYSTEM DESIGN
AND THE PREDICTIVE VALUE OF FIRMS CUSTOMER
SATISFACTION DATA

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SUMMARY

Many firms collect data concerning the satisfaction of their customers and use these data as a key input into the firm planning and control system. In fact, customer satisfaction monitoring systems represent the most common type of marketing research and are the single largest item of marketing research expenditure for most firms (e.g., Oliver 1999). These systems typically collect survey data by mail or telephone from the firm customers using measures of attribute-level and overall satisfaction (e.g., Griffin et al. 1995; Metzer, Bienstock, and Kahn 1995; Mittal, Ross, and Baldasare 1998). Such customer satisfaction data is widely used to provide leading indicators of future business performance making it an important component of “balanced scorecard” performance monitoring systems (e.g., Ittner and Larcker 2003; Kaplan and Norton 1996). Customer satisfaction monitoring systems therefore provide key performance indicators that are widely used by managers for goal-setting and management control (e.g., Hauser, Simester, and Wernerfelt 1994).

Extant marketing theory indirectly address a number of issues pertinent to firms choices that may impact the value of its customer satisfaction monitoring system in predicting future business performance. For example, from a measurement perspective, the literature advocates that customer satisfaction should be assessed relative to customers expectations (e.g., Johnson, Anderson, and Fornell 1995; Oliver 1993) and that multi-item customer satisfaction measures have superior measurement properties in capturing satisfaction data (e.g., Fornell 1992; Oliver 1993). From a sampling perspective, marketing strategy theory indicates that firms should focus on competitors as well as customers (e.g., Day and Nedungadi 1994), suggesting that in collecting satisfaction data, firms should sample customers of their competitors in addition to their own customers (e.g., Griffin and Hauser 1993). In contrast, the most common customer satisfaction monitoring system design choices in practice are to collect satisfaction data from only the firm own customers, and to do so using a single-item indicator of “overall satisfaction” (e.g., Griffin et al. 1995; Metzer, Bienstock, and Kahn 1995; Morgan, Anderson, and Mittal 2004). Clearly, “theory in use” concerning customer satisfaction monitoring system design differs significantly from the theory prescriptions of the marketing literature (e.g., Heskett et al. 1994; Myers 1999). In this paper we empirically address the question of whether “marketing theory” (the theory-based prescriptions of the marketing literature) or “theory in use” (the most common customer monitoring design system choices in practice), provide the most valuable customer satisfaction data in terms of predicting future business performance.

We focus on three issues where the prescriptions from marketing theory seem most at odds with the theory in use demonstrated in firms’ customer satisfaction monitoring system design choices.

1. Relative-to-competitors or Absolute-level customer satisfaction metrics.

2. Single-item vs. multiple-item customer satisfaction measures.

3. Overall vs. Relative-to-expectation measures of customer satisfaction.

To examine the value of customer satisfaction metrics produced by different monitoring system designs in predicting business performance we selected the companies included in the ACSI database as our sampling frame [see Fornell and colleagues (1996) for a detailed description of the ACSI nature and purpose]. In addition to the ACSI data we also collected data on firms business performance (Tobin’s Q, Cash-Flows from Assets) and on a number of industry (HHI, Demand Growth and Instability, 3 Industry Characteristic Dummies) and firm-level (# segments, Financial Leverage, Advertising and R&D Intensity) control variables from secondary sources.

After removing utilities firms and privately-held firms, the final dataset contained a total of 1,924 potential observations, representing 152 different firms, over 10 years (from 1994 to 2003). Missing data across different variables resulted in a final dataset with a minimum number of 377 working observations (407 for the Tobin Q analyses). The association between firms customer satisfaction monitoring system design choices captured in six different satisfaction metrics and their future business performance captured in the two lagged business performance dependents is examined via a series of linear regressions using Robust Regression.
Our results indicate that every single measure of customer satisfaction utilized in our analyses explains a significant portion of the variance in the firm future financial performance as measured by Tobin’s Q (with $R^2$ changes ranging from 10.14% to 10.39%) and net operating cash flows from assets (with $R^2$ changes ranging from 12.43% to 13.16%) beyond that explained by our control variables. Overall, these results indicate that customer satisfaction monitoring systems can significantly improve managers ability to predict the future financial performance of their firms. More specifically, using Tobin’s Q as the performance dependent, our results suggest that using a relative-to-competitors measure of customer satisfaction does not improve (and in fact degrades) the fit of the regression models for the multi-item satisfaction index measure and both the single-item satisfaction measures. The absolute value of the multi-item average customer satisfaction index measure provides more predictive power than either the single-item relative-to-expectations or the single-item overall satisfaction measures. Further, our results also indicate that only the absolute value multi-item average customer satisfaction index measure is positively associated future Tobin’s Q performance at a $p < .05$ level. In terms of cash-flows from assets, our results indicate that the relative-to-industry single-item relative-to-expectations measure of satisfaction provides managers with higher predictive values than any of the three absolute value customer satisfaction measures. This is also the customer satisfaction measure with the highest-level of significance in predicting firms cash-flow from asset performance. References available upon request.

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DEVELOPING SOCIAL IDENTITY AND SOCIAL CAPITAL TOWARD SUPPLY CHAIN MANAGEMENT

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SUMMARY

In the midst of paradigm shifts from transactional to relational, and from dyadic to multiple interfirm relationships, supply chain management (SCM) has emerged as a major business concept in which firms take a systems approach to viewing the supply chain as a single entity rather than as a set of fragments. The ultimate goal of SCM is to synchronize supply chain activities across supply chain partners to create customer value. Although the literature suggests today real competition is not firm against firm but supply chain against supply chain, only a few studies have discussed operating mechanisms inside the supply chain toward SCM. This study, thus, attempts to propose a conceptual model to explain the socialization process of firms within a supply chain by drawing concepts from social identity theory and social capital theory. Two research questions are addressed: (1) how do firms elect their membership with a particular supply chain, and (2) how do firms within a supply chain control each other behaviors to fulfill common goals through SCM.

An important and integral aspect of social identity theory is self-categorization through which an individual categorizes oneself and others into the same group or different groups, emphasizing inter-group differences and intra-group similarities in terms of values, norms, and behaviors. Similarly, each firm tends to identify itself as an active member of a particular supply chain among multiple supply chains the firm is associated with. Supply chain identity salience refers to the extent to which a particular supply chain identity is activated to influence a firm managerial actions in conformance with the supply chain values, norms, behaviors, etc. Supply chain salience is triggered by such drivers as supply chain characteristics, a firm characteristic, and supply chain association. Supply chain characteristics consist of prestige, reputation, tradition of a supply chain, and its conformance with customer expectations, while a firm characteristic includes a firm organizational compatibility with other firms in a supply chain. Supply chain association means a firm enduring involvement with and visible membership to a particular supply chain.

Social capital is defined as a relational resource attainable by individuals and/or firms from a network of social relationships. Social capital includes not only relationship networks but also interactions between different actors, and between processes derived from interactions. It is proposed that supply chain identity salience is positively related to the three critical dimensions of social capital: structural, relational, and cognitive dimensions. First, structural dimension includes both an actor network position and social interaction ties in which people can use personal contacts to access relational resource. When a firm strongly perceives itself as a member of a particular supply chain, the firm will actively share information and communicate with other members in the supply chain (i.e., interaction ties). Second, relational dimension refers to assets rooted in relationships. For example, trust is an asset of this kind deeply embedded in relationships that functions as an inter-firm governance mechanism in a supply chain. Social identity theory suggests that once a firm identifies itself as an active member of a particular supply chain, the firm and other members of the supply chain will develop trust. Third, cognitive dimension is relationship-embedded attributes like shared norms that facilitate a common understanding of goals and proper ways of behaviors in a social system. Once a firm supply chain identity is salient, the firm is willing to further align its values, goals, and behaviors to maintain its supply chain membership and contribute to achieving common supply chain objectives.

Social capital affects effective supply chain management. The marketing and strategy literature have suggested that trust and frequent and regular communication and information sharing between firms lead to cooperative arrangements for resource exchanges within a supply chain by sharing, allocating, recombining, and utilizing resources across firm boundaries. In addition, compatible value, shared goals, and cooperative norms help to transfer tacit collective knowledge and eliminate information asymmetry within a supply chain. As such, resource exchanges as well as organizational learning two important elements of supply chain management will be achieved thanks to social capital. SCM, in turn, is proposed to have a positive impact on customer value creation in terms of efficiency (lower cost) and effectiveness (added benefits). Through the replication of transactions and accumulated business volume, supply chain members learn to improve production efficiencies and, thus obtaining cost advantage. At the same time, via resource exchange, supply chain members monitor and understand constantly
changing customer requirements and collectively offer customized products to end-customers. In sum, it is argued that supply chain identity salience affects the accumulation of social capital in a supply chain which, in turn, facilitates supply chain management to create customer value. References available upon request.

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THE VALUE OF DOWNSTREAM INFORMATION: EXPLORING THE EFFECTS OF BUSINESS NETWORKS ON BUYER-SUPPLIER RELATIONSHIPS

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ABSTRACT

Drawing from emerging perspectives on relationship, chain and network management, we build a framework to study in detail the effects of the information from the network on trust, transaction specific investments (TSI), joint action and flexibility. The findings of the Dutch potted plant and flower industry show that the information buyers and suppliers obtain from downstream the value chain increases the level of joint action and flexibility and TSI.

INTRODUCTION

The increasing need to satisfy consumers has turned considerable attention of marketing professionals to buyer-supplier relationships. Through integrated operations with its suppliers and distributors, a manufacturer can better communicate the value of its products to consumers. The predominant focus in much of the existing research has been on individual dyadic relationships between firms, such as those between a manufacturer and a customer. However, a growing number of studies in the marketing literature show that a manager’s network of inter-personal contacts offers informational benefits that allow firms to increase flexibility in the way relationships are managed (e.g., Wathne and Heide 2004). Our study represents an attempt to understand the impact of the information, a firm obtains from firms located downstream the chain, on the way relationships are managed.

The network of contacts serves as conduits for sharing valuable information. The value of the information lies in its content and credibility rather than in the mere infrastructure for information sharing. Firms may explore benefits of trade conditions, reputation and operations. As there can be innumerable firms that might offer information to a business, we focused on the sources located downstream the chain (i.e., other buyers and buyer’s customers). These sources are closer to consumers and may signalize more precisely the needs of consumers. Therefore, the way buyer-supplier relationships are managed may be influenced by the valuable information from downstream the chain.

BUSINESS NETWORK

This study defines a business network as follows: “the set of connected business relationships of an organization – be they vertical (with suppliers, customers) or horizontal (with colleagues, competitors or other entities) – that can be separated into subgroups and form essential sources of valuable information that offers benefits to buyer-supplier relationships in terms of internal processes, trade conditions and foreseeing actions of the counterpart” (Claro 2004). This definition guides the examination of both the impact of the network on buyer-supplier relationships and limits the scope of the concept. Following the definition, we can assert that a network can help shape buyer-supplier relationships, because it binds different connected relationships together. Relationships are connected in the sense that decisions made in a focal relationship are supported by the valuable information provided by other relationships (Gulati 1998; Hakanson and Snehota 1995; Burt 1997; Blankenburg, Eriksson, and Johanson 1999). Since no relationship exists in isolation, what happens or is achieved in one relationship will always relate to what is happening in at least some others (Anderson, Hakansson, and Johanson 1994).

Underlying network is the quest for information to support organizational actions (Granovetter 1985). The connected relationships of a network serve as conduits for sharing valuable information. The information transmitted through the network regards not only price formation and quality and quantity data (i.e., trade conditions), but also more proprietary and tacit types of information, such
as how to improve production processes and logistics (Uzzi 1997). Firms in a network also bring social capital to other network members in the form of information, which can be used as a source of reputation, contacts and referrals. Firms may also share expert interpretations of information. For example, cooperatives and specialized associations frequently release reports on the market, tendencies and trends. The interpretation and applicability of such information is even more important than the transmission of the information itself. The information then reflects the stock of expertise within a firm or network that is not written down or even formally expressed but may nevertheless be essential to a firm’s effective operation.

Considering Burt’s (1980) and Salancik’s (1995) suggestion to find a proper degree of actor aggregation in studies of networks, we use the concept of the “network subgroup” to refer to organizations with the same function in the market. Members of a supply chain include all firms with whom the focal firm interacts directly or indirectly through its suppliers or customers, from the point of origin to the point of consumption. The focal firm is the central unit of analysis. It is from this firm’s point of view that we position all other organizations in the network. This study categorizes network relations into five subgroups: two located upstream in the chain (e.g., colleagues and input suppliers), two downstream in the chain (e.g., other buyers and buyers’ customers), and one third party (e.g., mediation agents).

RELATIONSHIP MARKETING

In buyer-supplier relationships, organizational boundaries are penetrated by the integration of activities as the supplier becomes involved in activities that traditionally are considered the buyer’s responsibility and vice-versa (Yilmaz and Hunt 2001). Collaboration is a relational, bilateral exchange as opposed to the discreteness that underlies spot-market transactions. The roles of supplier and buyer no longer narrowly defined in terms of the simple transfer of ownership of products. Given the dynamics of the environment and the shared decision-making roles of the parties, joint action is essential to achieve success. It comprises of joint problem solving and joint planning (Zaheer et al. 1998), as well as the flexibility to make adjustments (Bello and Gilliland 1997). These relationships rely on joint problem solving for conflict resolution and on joint planning as vehicle for achieving mutual understanding.

The ramifications of the decision to create specific transactional assets are the principal focus of transaction cost approach (TCE, Williamson 1996). TCE has focused attention on the accumulation of assets – that is, any tangible or intangible of value – that are difficult and costly to shift from one transactional partner to another. Such transaction-specific investments (TSI) are rather customized and idiosyncratic and are therefore of considerably less value outside the focal relationship (Heide and John 1988). Specificity arises in different ways, particularly in human knowledge and skills and in physical specificities.

The need for trust between partners has been identified as an essential element of buyer-supplier relationship (Anderson and Narus 1990; Rousseau et al. 1998). Trust enables partners to manage risk and opportunism in transactions (Nootboom et al. 1997), and it reduces complexity more effectively than authority (Powell 1990). Broadly defined, trust reflects the extent to which negotiations are fair and commitments are sustained (Anderson and Narus 1990) and the extent to which one party believes that its requirements will be fulfilled through future actions undertaken by the counterpart (Barney and Hansen 1994).

EXPLORING THE EFFECTS OF DOWNSTREAM INFORMATION

A framework to study the overall effect of the network on relationship management is shown in Figure 1. In this paper, we focus on the specific effects of the information obtained from firms located downstream the chain (other buyers and buyer’s customers) on elements of the relationship management: joint action, flexibility, TSI and trust.

The effect of the downstream information (i.e., from buyer’s customers and other buyers) on the relationship management can follow a marketing rationale. Consumers influence company’s actions. Once a manufacturing company maintains close contacts with retailers and distributor, the manufacturer obtains information about the reactions of consumers to its products. In this way, manufacturer can more quickly adapt production processes to improve packing and quality or to make any other necessary adjustment. Very often adjustments are dependent on adjustments of a suppliers and buyers of this manufacturer. Consequently, the information a manufacturer obtains from companies located downstream the value chain may foster an overall constructive behavior. It is expected that with this information companies will invest in transaction specific assets and engage in joint actions with its supplier and buyer. It is also expected that the level of trust in the relationships will increase as well as its flexibility to make adjustments. In this study, we intend to explore the effects of the information downstream.

In this study, we also added in the framework a performance measure and six control variables. The performance measure is composed of financial and operational measures of organizational effectiveness (Murphy et al. 1996). Regarding the control variables, previous research suggests that the buyer-supplier relationship
might be affected by the length of business interaction (Anderson and Weitz 1992), environmental volatility and diversity (Ganesan 1994), firm size and share of fixed line channels (Stern, El-Ansary, and Coughlan 1996).

**METHODOLOGY**

The potted plant and flower industry is one of the most important sectors in the Dutch agribusiness. Dutch merchant distributors (called buyers in this study) are firms such as wholesalers, cash-and-carry and garden centers. Among the about 1,500 merchant distributors concentration is very much the watchword: the largest 4 percent (those with sales of more than €12 million) control nearly half of the purchases. Florists are the dominant retailers in the industry, representing 52 percent of the outlets, street sellers account for 27 percent of outlets, followed by supermarkets. But in some countries supermarkets account for the majority of sales, for instance, 45 percent in the U.K. and even 65 percent in Switzerland.

The Netherlands is renowned for its auctions. More than 92 percent of the trade between growers of potted plants and flowers (called suppliers in this study) and their buyers in this sector is affected under the services of the auctions (Ministry of Agriculture and Food Quality 2002). The two largest, namely Aalsmeer and Flora Holland, account for more than 80 percent of the total trade between suppliers and buyers. The auctions offer infrastructure for the trade in two distinct channels, namely fixed lines and the auction clock. The Dutch auction clock system works via the price-reduction principle, in which the price is adjusted downward until the product is sold to the first buyer to respond. Our paper focuses on the other channel, called “fixed lines.” Nowadays, this channel includes about one-third of the total potted plant and flower sales, as opposed to less than 5 percent only five years ago. It is expected to continue to grow in the future, because the fixed lines present advantages for both buyers and suppliers. Buyers are assured of the necessary quantity of potted plants, delivered at the requested date, time and place and at a fixed price. Suppliers know the price they will get, since it is negotiated in advance. In this way, they are no longer dependent on the auction clock with its unpredictable prices and product volumes.

**Data Collection and Research Instrument**

The data were collected in 2002. The Aalsmeer Auction provided a list of 600 supplier companies and 350 buyer companies. The list was screened to eliminate non-qualifying companies. The supplier list was found to contain 32 non-eligible companies (e.g., foreign compa-
nies, liquidated companies, and duplicate addresses) and the buyer list 8 non-eligible companies, which were excluded from the final list. Our data collection effort yielded 202 responses of supplier companies, of which 28 were incomplete questionnaires and non-eligible companies (31% response rate). From the buyers we received 67 usable questionnaires (20% response rate). A standardized survey questionnaire was used that consists of 60 precoded questions. For most of the items Likert 7-point response format were used, and a limited number of items were assessed with 2 to 5-point response formats. The questions address the relationship between the respondent and a regular counterpart via fixed line channel. Before the data collection started the questionnaire was tested in a case study design, including 5 supplier companies (5 to 45 employees) and 4 buyers companies (180 to 550 employees). The input from a panel composed of faculty members and industry experts was also particularly helpful in creating the different measurement scales and individual items.

Research Measures and Data Analysis

The business network construct refers to sets of connected relationships that are contingent (informational benefits) upon each other and that influence a focal buyer-supplier relationship (Cook and Emerson 1978). The business network then reflects the average strength of the information obtained from the business network. The measure for network connections was developed based on Anderson, Hakansson, and Johanson. (1994), and Blankenburg, Eriksson, and Johanson (1999). To capture all the potential sets of connected relationships, five network subgroups were identified located upstream (input suppliers such as young plants and seeds and firms that supply fertilizers, chemical products, pots, vases, etc.) and downstream the supply chain (other buyers e.g. wholesalers, flower exporters, cash-and-carries and garden centers, and buyers’ customers, such as supermarkets, flower shops and wholesalers abroad) and third parties (agents of the auction who have strong bonds with both suppliers and buyers). The informational benefits of each network subgroup refer to support in three areas: setting prices, quantities and qualities; coordinating production processes and logistic operations; and foreseeing possible future actions of the counterpart. Transaction-specific investments (TSI) are defined as one party’s perception of the extent to which an investment was made specifically for a transaction with one or a limited number of companies. Items about the Human and Physical TSI were included in the questionnaire.

Trust refers to the belief that the other partner is honest and sincere and will not deliberately damage the relationship. Trust reflects the expectation that negotiations will be fair and commitments will be sustained (Anderson and Narus 1990). Trust is captured in two dimensions, interpersonal and inter-organizational trust (Zaheer et al. 1998). Collaboration refers to situations in which partners work together to achieve mutual goals (Anderson and Narus 1990; Morgan and Hunt 1994). The collaboration construct has two dimensions: the norm of flexibility and joint action. The norm of flexibility is defined as the extent to which a partner shows an accommodating response to changing circumstances (Heide 1994). Joint action was calculated by measuring the degree of joint planning and joint problem solving. Joint planning is defined as the extent to which future contingencies, and consequential duties and responsibilities in a relationship, have been made explicit ex ante (Heide and Miner 1992). A multidimensional measure of performance was used, two measures of financial performance, profitability and the sales growth rate, were combined with one affective dimension, perceived satisfaction. This dimension is defined as the assessment of the respondent’s satisfaction how well the business relationship with the selected partner achieves the expectations (Zaheer et al. 1998). The length of business interaction was measured by an open-ended question as to the number of years that the respondent had done business with the selected partner. The measurement of environmental uncertainty and diversity captures respondents’ perceptions of market volatility and diversity. It was assessed by five items with a Likert scale based on a previous study (Klein, Fraizer, and Roth 1990). The measurement of firm size comprised different instruments for each side of the relationship. In the supplier sample, firm size was measured on a categorical scale based on annual sales in the year 2001. A five-interval scale was used for the supplier size variable (respondent), and a three-interval scale was used for the buyer size variable (partner). For the buyer sample, the firm size was also measured on a categorical scale based on annual sales in the year 2001. For the buyer size we used a seven-interval scale (respondent) and for the supplier size a three-interval scale (partner). The fixed lines variable reflects the percentage of sales (in the sample of suppliers) or purchases (in the sample of buyers) through the mediation department of the Dutch flower cooperatives, which refers to non-auction-clock transactions.

We carefully checked the validity (discriminant, convergent, and content) and reliability using Cronbach’s alpha, composite reliability, and extracted variance of the measures and the sample’s non-response bias. In all cases Cronbach’s alpha was sufficiently high (> .7) to warrant confidence in the internal consistency of the scales. The correlations between the constructs did not suggest problems of pairwise collinearity that would preclude the use of all constructs in one equation.

RESULTS

We estimated several independent ordinary least squares regressions for each sample. The five individual
network subgroups served as the independent variables and the elements of the relationship as the dependent variables. Table 1 presents the standardized coefficients of the estimated regression models. All the equations are statistically significant below the 0.01 level, except for the equation for growth rate. The adjusted R² for all significant equations ranges from 0.070 to 0.217. The moderate explanatory power of most of the equations supports the further examination of individual coefficients, to check the effects of each individual network subgroup and the control variables on the elements of the buyer-supplier relationship.

Table 2 shows the results of the regression equations for the buyer sample. This table summarizes the results of the seven regression equations. Six equations were statistically significant below the 0.01 level, one equation was significant below the level of 0.05, two below 0.10, and only one (for growth rate) was not significant. The adjusted R² for the significant equations ranges from 0.025 to 0.258. The empirical evidence shows a moderate explanatory power for most of the significant equations. The moderate, consistent explanatory power of the equations supports our further examining individual coefficients, testing the effects of each variable and comparing the results with those found for the supplier sample.

**DISCUSSION**

On the supplying side of the relationship, the supplier’s human and physical transaction-specific investments are contingent on the information from the network subgroup of buyer’s customers. The valuable information flows from supermarkets, florists and street sellers, who are likely to dictate the necessary investments of their distributors and firms farther upstream in the chain. Previous studies showed that investments in demand-oriented chains are steered by retailers that are close to consumers and can quickly perceive consumers’ needs (Myers, Daugherty, and Autry 2000).

As the information from buyer’s customers positively influences transaction-specific investments, this information is also valuable for fostering joint planning and joint problem solving. Information from these retailers can be helpful in finding solutions for problems and in discussing future plans with the counterpart in the buyer-supplier relationship. The information that suppliers obtain from the network subgroup of other buyers also increases the joint problem solving. Joint problem solving is a dimension of joint action, which is significantly influenced by the downstream network subgroups.

Interestingly, joint planning is also fostered by information upstream in the chain. The network subgroups of other suppliers can offer information about the actual situation of the supply side of the chain and that adds up to the information that flows from retailers downstream in the chain.

The downstream network subgroup of other buyers positively influences the norm of flexibility. This suggests that suppliers obtain information from other buyers that encourages a positive attitude toward adjustments when difficult situations in a relationship unfold.

Regarding performance, two negative coefficients were the only significant effects found. First, the subgroup of agents of the cooperative negatively influences perceived satisfaction. The valuable information that suppliers obtain from the agents appears either to increase the satisfaction criteria or to reduce the satisfaction evaluation of the buyer counterpart. Since agents are in close contact with both parties in the relationship, the agents might inform suppliers about buyers with a bad reputation or about changes in a supplier’s quality standard. Second, the subgroup first-tier suppliers negatively influences profitability. This might indicate that suppliers may carefully evaluate the content of information they receive and may temper the investments they make to gather information from this subgroup.

The agents of the cooperatives are negatively related to all of the elements of the buyer-supplier relationship, revealing the surprising role played by these third parties toward suppliers. This negative result suggests that information from the network can function on two fronts. First, the information can replace the elements of the relationship, because the information provides details to coordinate production and logistic processes and in turn functions as a mechanism for suppliers to believe that the buyer will act as expected. Second, the information obtained by suppliers from the agents of the cooperatives can block the elements by providing suppliers with intelligence about potential negative actions of a buyer, thus discouraging the further development of the elements of the buyer-supplier relationship.

On the buying side of the relationship, the downstream network subgroups, namely other buyers and buyer’s customers, were significantly related to all elements of the buyer-supplier relationship, except for interorganizational trust and physical transaction-specific investments. Although the buyer-supplier relationship is analyzed in this sample from the purchasing perspective, the demand orientation of buyers appears to be evident. The relationship that the buyers maintain with a focal supplier counterpart is contingent on the information from retailers and other distributors. The information from the first-tier suppliers (e.g., suppliers of young plants) positively influences the physical specific investments.

The network subgroups do not significantly influence the performance measures, except for the negative
TABLE 1
Results of the Regression Analysis of Network Subgroups and Control Variables on the Elements of Buyer-Supplier Relationships: Supplier Sample

<table>
<thead>
<tr>
<th>Predictor</th>
<th>Transaction-Specific Investments</th>
<th>Trust</th>
<th>Joint Action</th>
<th>Flexibility</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Physical</td>
<td>Human</td>
<td>Inter-organizational</td>
<td>Interpersonal</td>
<td></td>
</tr>
<tr>
<td>First-tier suppliers</td>
<td>0.10</td>
<td>0.08</td>
<td>-0.07</td>
<td>0.11</td>
<td>-0.06</td>
</tr>
<tr>
<td></td>
<td>(1.28)</td>
<td>(0.95)</td>
<td>(0.85)</td>
<td>(1.23)</td>
<td>(0.72)</td>
</tr>
<tr>
<td>Other suppliers</td>
<td>0.12</td>
<td>0.04</td>
<td>0.02</td>
<td>0.03</td>
<td>0.13</td>
</tr>
<tr>
<td></td>
<td>(1.49)</td>
<td>(0.52)</td>
<td>(0.22)</td>
<td>(0.28)</td>
<td>(1.51)</td>
</tr>
<tr>
<td>Other buyers</td>
<td>-0.06</td>
<td>0.09</td>
<td>0.13</td>
<td>0.01</td>
<td>0.15†</td>
</tr>
<tr>
<td></td>
<td>(0.69)</td>
<td>(1.05)</td>
<td>(1.43)</td>
<td>(0.10)</td>
<td>(1.71)</td>
</tr>
<tr>
<td>Buyer’s customers</td>
<td>0.33**</td>
<td>0.21**</td>
<td>0.02</td>
<td>0.06</td>
<td>0.17†</td>
</tr>
<tr>
<td></td>
<td>(4.08)</td>
<td>(2.42)</td>
<td>(0.18)</td>
<td>(0.64)</td>
<td>(1.77)</td>
</tr>
<tr>
<td>Cooperative agents</td>
<td>-0.16*</td>
<td>-0.04</td>
<td>-0.08</td>
<td>-0.10</td>
<td>-0.12</td>
</tr>
<tr>
<td></td>
<td>(2.26)</td>
<td>(0.51)</td>
<td>(1.07)</td>
<td>(1.28)</td>
<td>(1.60)</td>
</tr>
</tbody>
</table>

| Control variables          |                     |       |               |             |             |             |             |             |
|                            |                     |       |               |             |             |             |             |
| Length of business interaction | -0.16*   | 0.04 | 0.07          | 0.10        | 0.07        | 0.09        | 0.01        | -19**       | 0.03        | 0.04        |
|                            | (2.18)   | (0.58) | (0.90)        | (1.22)      | (0.94)      | (1.28)      | (0.10)      | (2.35)      | (0.40)      | (0.56)      |
| Environmental volatility and diversity | 0.13†       | 0.05 | -0.04         | 0.03        | -0.04       | 0.07        | -0.10       | 0.02        | -0.27**     | -0.04       |
|                            | (1.79)   | (0.62) | (0.57)        | (0.38)      | (0.55)      | (0.98)      | (1.40)      | (0.26)      | (3.63)      | (0.55)      |
| Firm size                  | 0.19**   | 0.24**| 0.16**        | 0.07        | 0.24**      | 0.15**      | 0.17*       | 0.14*       | -0.02       | 0.05        |
|                            | (2.65)   | (3.20) | (2.09)        | (0.91)      | (3.26)      | (2.06)      | (2.20)      | (1.76)      | (0.26)      | (0.70)      |
| Buyer size                 | -0.01    | 0.08  | -0.02         | -0.70*      | -0.11       | -0.07       | -0.03       | -0.04       | -0.08       | 0.02        |
|                            | (0.13)   | (1.05) | (0.25)        | (2.11)      | (1.46)      | (1.01)      | (0.33)      | (0.43)      | (1.06)      | (0.21)      |
| % of fixed lines           | -0.04    | -0.01 | 0.20**        | 0.21**      | 0.20**      | 0.08        | 0.19**      | 0.01        | 0.19**      | 0.27**      |
|                            | (0.44)   | (0.15) | (2.47)        | (2.47)      | (2.45)      | (1.02)      | (2.36)      | (0.11)      | (2.34)      | (3.30)      |
| R² adj                     | 0.217**  | 0.149**| 0.086**       | 0.070**     | 0.151**     | 0.174**     | 0.115**     | 0.016       | 0.137**     | 0.131**     |

**p < 0.01, *p < 0.05, †p < 0.10 (two-tailed).
Note: Regression coefficients are standardized coefficients b) and |t-test| within parentheses.

Examining the equations together, a pattern is noticeable in the buyer and supplier samples. The information from the downstream network subgroups (i.e., other buyers and buyer’s customers) significantly impacts several elements of the buyer-supplier relationship. This contrasts with the results of a previous study on industrial marketing, which found suppliers to be strongly connected to first-tier suppliers (Blakenburg and Eriksson 2000). Also, the conventional wisdom in purchasing literature emphasizes the upstream actors in a chain as the most important sources of information for buyers (for a review see Boer, Labro, and Morlacchi 2001). In our study, the information that firms obtain from actors downstream in the chain (retailers and distributors) supports collaboration, investments and trust in a relationship more than other network subgroups.

effect of the network subgroups of other suppliers and the agents of the cooperative. The reasoning follows the same line as the one provided for the supplier sample. This reinforces the need for carefully considering these two network subgroups.
### TABLE 2
Results of the Regression Analysis of Network Subgroups and the Control Variables on the Elements of Buyer-Supplier Relationships: Buyer Sample

<table>
<thead>
<tr>
<th>Predictor</th>
<th>Transaction-Specific Investments</th>
<th>Inter-organizational Trust</th>
<th>Interpersonal Trust</th>
<th>Joint Problem Solving</th>
<th>Joint Planning</th>
<th>Growth Rate</th>
<th>Profitability</th>
<th>Perceived Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Physical</td>
<td>Human</td>
<td>Inter-organizational</td>
<td>Interpersonal</td>
<td>Joint Problem Solving</td>
<td>Joint Planning</td>
<td>Performance</td>
<td></td>
</tr>
<tr>
<td>First-tier suppliers</td>
<td>0.30*</td>
<td>–0.04</td>
<td>–0.23</td>
<td>–0.20</td>
<td>–0.21</td>
<td>–0.20</td>
<td>–0.26†</td>
<td>–0.25</td>
</tr>
<tr>
<td></td>
<td>(1.96)</td>
<td>(0.25)</td>
<td>(1.52)</td>
<td>(1.25)</td>
<td>(1.32)</td>
<td>(1.38)</td>
<td>(1.74)</td>
<td>(1.44)</td>
</tr>
<tr>
<td>Other suppliers</td>
<td>–0.03</td>
<td>–0.11</td>
<td>–0.19</td>
<td>–0.22</td>
<td>–0.24</td>
<td>–0.11</td>
<td>0.03</td>
<td>0.14</td>
</tr>
<tr>
<td></td>
<td>(0.17)</td>
<td>(0.64)</td>
<td>(1.10)</td>
<td>(1.18)</td>
<td>(1.38)</td>
<td>(0.71)</td>
<td>(0.17)</td>
<td>(0.75)</td>
</tr>
<tr>
<td>Other buyers</td>
<td>0.18</td>
<td>0.28*</td>
<td>–0.04</td>
<td>0.05</td>
<td>0.22</td>
<td>0.44**</td>
<td>0.41**</td>
<td>0.00</td>
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<td></td>
<td>(1.04)</td>
<td>(1.71)</td>
<td>(0.21)</td>
<td>(0.28)</td>
<td>(1.35)</td>
<td>(2.90)</td>
<td>(2.67)</td>
<td>(0.00)</td>
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<tr>
<td>Buyer’s customers</td>
<td>0.09</td>
<td>0.36**</td>
<td>0.19</td>
<td>0.31*</td>
<td>0.34**</td>
<td>0.33**</td>
<td>0.27*</td>
<td>0.05</td>
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<td>(0.64)</td>
<td>(2.57)</td>
<td>(1.33)</td>
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<td>(2.32)</td>
<td>(2.51)</td>
<td>(2.00)</td>
<td>(0.30)</td>
</tr>
<tr>
<td>Cooperative agents</td>
<td>0.02</td>
<td>0.20</td>
<td>–0.05</td>
<td>–0.06</td>
<td>0.01</td>
<td>0.06</td>
<td>0.08</td>
<td>–0.02</td>
</tr>
<tr>
<td></td>
<td>(0.12)</td>
<td>(1.59)</td>
<td>(0.41)</td>
<td>(0.45)</td>
<td>(0.11)</td>
<td>(0.51)</td>
<td>(0.71)</td>
<td>(0.14)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Control variables</th>
<th>Length of business interaction</th>
<th>Environmental volatility and diversity</th>
<th>Supplier size</th>
<th>Firm size</th>
<th>% of fixed lines</th>
<th>R² adj</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.05</td>
<td>0.10</td>
<td>0.10</td>
<td>–0.22</td>
<td>0.12</td>
<td>0.071**</td>
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<tr>
<td></td>
<td>(0.36)</td>
<td>(0.67)</td>
<td>(0.71)</td>
<td>(1.56)</td>
<td>(0.76)</td>
<td>0.156**</td>
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<td>–0.14</td>
<td>–0.15</td>
<td>–0.21</td>
<td>0.16</td>
<td>0.120**</td>
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<tr>
<td></td>
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<td>(0.98)</td>
<td>(1.13)</td>
<td>(1.60)</td>
<td>(1.08)</td>
<td>0.120**</td>
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<td></td>
<td>0.29*</td>
<td>0.04</td>
<td>–0.19</td>
<td>–0.26*</td>
<td>0.03</td>
<td>0.070**</td>
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<td></td>
<td>(2.03)</td>
<td>(0.24)</td>
<td>(1.46)</td>
<td>(1.90)</td>
<td>(0.19)</td>
<td>0.070**</td>
</tr>
<tr>
<td></td>
<td>0.12</td>
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**p < 0.01, *p < 0.05, †p < 0.10 (two-tailed).
Note: Regression coefficients are standardized coefficients b) and |t-test| within parentheses.

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**CONCLUDING REMARKS**

This paper provides evidence that buyer-supplier relationships are contingent on the information companies’ obtain from the downstream network subgroups. While several studies claim that the whole network is essential for business purpose, our study shows that the valuable information obtained from the downstream networks subgroups influences more the way buyer-supplier relationships are managed than the other subgroups of the network. The comparison among the individual network subgroups raised an interesting discussion about focus firms may turn to the firms downstream the chain. This suggests that one may consider a decomposition of the network by focusing on the downstream network and perhaps evaluate the information value of the network in demand-orientated chains.

Some limitations must be considered when considering the results of our research. Our study used a cross-sectional design, thus preventing the investigation of the dynamic effects of the network and the elements of the...
buyer-supplier relationship. Further work can consider a longitudinal study to investigate the framework at different points in time. Our study domain was firms in the Dutch potted plant and flower industry. This might limit the generalizability of our conclusions. Further research is encouraged to replicate the research in a different setting, such as another country or product.

Managers may use our study and its empirical evidence as a check on the adequacy of their existing network and the type of information benefits it might provide. Firms should weigh the entire set of significant network effects in our study in making decisions about the degree of transaction-specific investment, trust, flexibility and joint action. Information obtained from the network can reduce information asymmetry, increase coordination and offer safeguarding benefits. The mere process of making contacts and cross-checking information with members of the network may lead to an improvement of decision making by managers. It is also important for managers to have accurate perceptions of the impact of information from the network. If managers either underestimate or overestimate the positive impact of information from the network, their efforts will be misguided, eventually dampening performance.

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MANAGING INTELLECTUAL PROPERTY IN THE GLOBAL OUTSOURCING OF KNOWLEDGE-BASED SERVICES

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SUMMARY

Rapid globalization and short-term performance demands have compelled corporate America to cut costs, first by outsourcing manufacturing (1980s and 1990s), now by outsourcing services (2000s). While the outsourcing of products allowed design, specification, and quality-control aspects to be managed by the outsourcer, the farming out of knowledge-based services may involve outsourcing the very knowledge that sustains a firm. Never before has knowledge-based and service work been outsourced globally at as large a scale as it is among U.S. firms today. The rapid growth of information technologies, including the Internet, has made the hitherto unimaginable come true. Outsourced activities include a wide variety of services, such as accounting, financial services, taxation, customer service, information technology, human resources, research and development, data processing, sales, customer service, and so on (Rao and Young 1994; Rothstein 1998; Thibodeau 2003). In fact, any work that does not require face-to-face contact is a candidate for either outsourcing or offshoring to less expensive locations. Will American companies lose their innovative abilities as they transfer knowledge work overseas? Some news reports suggest that companies have been more concerned with making a good, short-term impression on Wall Street by cutting cost through outsourcing than with improving their long-term innovative ability by retaining knowledge work in-house. Managers are looking for strategies to help them operate successfully in the rapidly changing environment (Useem and Harder 2000; Young and Hood 2003).

In the heat of the highly charged debate over the consequences of outsourcing, the question of how American firms should manage intellectual property rarely has been addressed in the media or by academic researchers, despite the rapid growth in the global outsourcing of knowledge-based services. Our research aims to fill this important gap in the global outsourcing literature. Given the large amount of existing theory in the fields of economics, international business, and strategy on the rationale for outsourcing, and given the inexorable march of corporate America towards outsourcing, we tackle a vital aspect of firms’ strategy: managing intellectual property to create superior competitive advantage.

This research tries to extend the current academic research on global outsourcing in several ways. First, it offers a new conceptual framework aimed at understanding the management of intellectual property in global outsourcing. Second, the framework takes a broader perspective of outsourcing than past research; our proposal encompasses globalization, knowledge-based services, several globalization related factors, and various dimensions of managing intellectual property. Third, it uses several relevant theoretical concepts, developing research hypotheses based on relevant elements of the knowledge- and resource-based view of the firm, transaction cost and buyer-seller relationship theory, and agency theory. We hope to make a significant contribution to academic knowledge, managerial insights, and public-policy guidelines in the age of globalization of knowledge-based services.

For a number of outsourcing companies and providers, the nature and extent of outsourcing is a new challenge that can bring about drastic changes in organizations, including the management of intellectual property. These changes have far-reaching implications for the innovative capabilities of organizations, their ability to cope with change, and their performance, as well as for knowledge management and learning within organizations. It is in this context that we aim to make a contribution. References available upon request.
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STRATEGIC FIT ON STANDARDIZATION GLOBAL MARKETING STRATEGY: AN IMPLEMENTATION PERSPECTIVE

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SUMMARY

As globalization deepens into almost every aspect of business conduct, a global marketing strategy is believed to be positively related to a firm performance (Craig and Douglas 2000; Zou and Cavusgil 2002). Even though the benefit of applying standardized global marketing strategy has been widely acknowledged (Levitt 1983; Jain 1989), its effect on firm performance has received quite controversial results in academic research. Past effort in reconciling this controversy has largely focused on external environmental factors such as similarity of market conditions (Ozsomer and Prussia 2000), consumer characteristics (Theodosiou and Katsikeas 2001), and country specific conditions (Chung 2003). The general findings indicate that standardization is most applicable when the host market and home market share similarities along these dimensions. This finding is consistent with the I-O framework which posits that the co-alignment between environmental or industrial structure and firm strategy positively influences firm performance (Aldrich 1979; Porter 1980; Venkatraman and Prescott 1990).

Drawing on the notion of strategic fit, the purpose of this paper is to examine the effect of it between the standardized marketing strategy and managerially controllable factors, namely the organizational structure and organizational process, on firm performance. Specifically, following the recommendations of Tosi and Slocum (1984), Van de Ven and Drazin (1985), and Venkatraman (1989), this study will adopt a multi-perspective strategic fit approach to understand which form of it best explains the implication that co-alignment between strategy and organizational characteristics impacts performance. When testing it issues in current literature focusing on standardization, studies typically employ moderation effects without a justification of its appropriateness. A multi-perspective approach, compared with choosing simply one form to explain a model, leads to more powerful and useful operationalization and interpretation (Venkatraman 1989).

The basic premise of this study lies in the idea that the implementation of a global marketing strategy focusing on standardization depends significantly on the existence of a match between the standardization strategy and organizational characteristics (namely organizational structure and organizational process) that should be global in nature. More specifically, this paper hypothesizes that the it between a standardization strategy and, firstly, the global marketing structure used, but also, secondly, the global marketing processes employed are both positively related to firm performance.

Survey data were obtained from MNE managers located through Dun and Bradstreet Information Services (D&B). New scales were developed to measure the three dimensions of organizational characteristics based on existing literature. A three-step approach to assess the validity and reliability of the measures according to the procedures outlined by Churchill (1979) and Anderson (1987) was used to assess the reliability and validity of the measures. Overall, the measures demonstrate satisfactory reliability, convergent validity and discriminant validity.

Four complementary perspectives of it were tested using different techniques: moderation, mediation, profile deviation, and covariation. These four perspectives are complementary to each other and each perspective contributes something unique to the study. The moderation and mediation perspectives are primarily formulated as competing models to clarify the question of whether global structure and global process follows the one is better approach in influencing the performance of a standardization strategy. In addition, the moderation and mediation perspectives may be used to conclude whether global structure and global process must be present in the organization for a positive effect to occur. Meanwhile, the profile deviation perspective examines whether there are best practices that firms can learn from others to improve performance. Finally, the covariation perspective explains whether firms must achieve internal organizational consistency to benefit from a standardization strategy which dictates the allocation of resources in an organization.

This paper findings generally support the hypotheses that both strategy-structure and strategy-process fit enhance firm performance. Specifically, results support the mediation perspective, the profile deviation perspective, and the covariation perspective. However, the moderation perspective fails to be supported in the context of this study focusing particularly on standardization strategy and firm performance.

For managers, this implies that the need to pursue a consistent and concurrent resource allocation pattern to achieve internal consistency in the organization. In addition, the profile deviation perspective shows that there are
best practices available for firms to employ once they decide to implement a standardization global strategy. From a methodological perspective, this study demonstrates the advantage of applying multiple perspectives. First of all, simply conceptualizing a contingency framework with moderation effects is overly simplistic and may sometimes be misleading. Had our study been conducted with the moderation perspective alone, we would have come to the conclusion that establishing global structure and global process may not affect firm performance at all. This paper questions such a conclusion since its utilization of other perspectives has proven that structure and process can be important organizational characteristics driving performance particularly when studying forms of it other than moderation. Multiple perspectives also prove to be complementary to each other. Using multiple perspectives allows the researcher to obtain both precision of it between the studied variables (with the moderation and mediation perspectives) as well as a more holistic analysis (with the profile deviation and covariation perspectives). References available upon request.

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DRIVERS OF PRODUCT STANDARDIZATION: AN EXPLORATION OF GLOBALLY-ORIENTED FIRMS

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J. Chris White, Michigan State University, East Lansing

SUMMARY

There are many influences on product standardization within the firm, including a strategic emphasis on attaining scale economies, the aim to coordinate resources efficiently, and the firm’s ability to respond appropriately to market conditions. Embedded organizational cognitions have been found to influence the decisions that managers make. Further, the commitment of top managers has been forwarded as especially pivotal in sponsoring and implementing strategies in the firm. For example, the global mindset of senior management has been found to shape firm strategy with an enhanced sense of perceived risk and perceived reward resulting from such broad experiences. Despite evidence concerning the role of embedded organizational cognitions and the commitment of top management, these influences have not been extensively studied when addressing the research topic of product standardization. This gap may limit our understanding of product standardization decisions because active and engaging leadership by top management is essential to gain political capital throughout the organization and regardless of the initiative. In an effort to address this gap, the authors seek to investigate these questions:

• To what extent does organizational commitment to global operations (as evidenced by a global strategic imperative and cross-country coordination) influence product standardization?

• To what extent does top management commitment to globalization (as evidenced by global championing, a global mindset, and a global career imperative) influence the organization’s commitment to global operations.

To address these questions, the authors propose a conceptual framework in which top management commitment to global operations influences the organization’s commitment to globalization, which in turn influences product standardization. An internet survey was employed to collect data. A sampling frame of 2,000 marketing and business professionals was drawn from Dun and Bradstreet (D&B) Information Services. We received 206 usable replies and 332 were deemed undeliverable, yielding an effective response rate of 12.35 percent. We performed both measurement (via a confirmatory factor analysis [CFA]) and path model analyses using EQS version 6.1. Both the CFA and the path analysis were carried out independently, but each used the same data items. We assessed the measurement model first to gain a sense of the validity and reliability of the hypothesized model prior to testing for statistically significant relationships in the full model.

Findings indicate that the organization’s global strategic imperative and cross-country coordination positively impact the utilization of product standardization. Ranging from developing strategic alliances to making competitive moves, the organizational commitment evidenced by a global strategic imperative and cross-country coordination positions the firm to recognize and capitalize on specific opportunities (e.g., homogeneous market segments) worldwide. Because it is committed to developing explicit methods to gather and organize data about competitor and market influences, key decision-makers have better information available when making determinations about product standardization. Likewise, a commitment to cross-country coordination facilitates product standardization.

The championing of global operations by senior management positively influences the organization’s global strategic imperative and cross-country coordination. Possessing the ability to instill in others a sense of importance, purpose, and direction, this emphasis brings a sense of priority to the entire organization. Findings regarding the impact of top management’s global mindset on cross-country coordination may be the result of similar managerial forces at work within the firm. Able to draw from general international work experiences, upper-level managers may find it much easier to facilitate the processes required to organize competitive information in a variety of markets. And finally, our results indicate that a global career imperative among senior managers positively influences both a global strategic imperative and cross-country coordination. A global career imperative creates a critical mass of international experience from which the firm is able to function effectively in the competitive environment. Due to the foreign work experiences encouraged and acted upon, managers develop important knowledge and values on the requirements of international activities that they otherwise would not achieve. This emphasis in the organization on broad work experiences gives the manager a wealth of information to utilize for the successful implementation of a firm’s global strategy.

Gerald Yong Gao, the University of Hong Kong, Hong Kong
Yigang Pan, York University, Toronto

SUMMARY

With multinational firm increasing commitments to the global market in the last two decades, research on foreign market entry and investment has attracted much attention in the field of international business. A large volume of conceptual and empirical work has focused on the determinants of entry mode choices (e.g., Madhok 1997), the timing of foreign market entries (e.g., Gaba et al. 2002), and the performance implication of entry timing and mode choices (e.g., Brouthers 2002). Most of previous studies only focused on one-time entry instead of a sequence of entries. However, the reality is that multinational firms usually invest in multiple projects in an important foreign market, such as China.

When multinational firms undertake a new investment project, their previous entry experience plays an important role. Recently, an increasing attention has been given to the sequential nature of firm behavior in foreign markets (e.g., Chang and Rosenzweig 2001; Delios and Henisz 2003). Researchers have looked into the evolution pattern of investments and the sequential entry mode choices. However, there are still some important unaddressed questions. We have limited knowledge about the pacing of sequential entry activities, i.e., how fast multinational firms undertake a series of investments in a foreign market over a long period of time. Drawing upon the resource-based view and the organizational learning perspective, we propose that firms learning in a foreign market has a significant impact on the pace of expansion. In this study, we will examine firms learning through the process of international expansion including exporting before real investments, product sector expansion, and geographic expansion. We will also investigate whether market attractiveness acts as an important determinant of the pace of multinational firms expansion in a foreign market.

Theory and Hypotheses

Beyond the exploitation of firm specific advantage, international operations also imply considerable benefits of exploring new knowledge. However, international expansion faces substantial uncertainties as well. Therefore, an interesting question comes out: what determines the pace of sequential entry activities of multinational firms in a foreign market? Based on the resource-based view and organizational learning perspective, we propose that two sets of variables will impact the pacing of sequential entry activities of multinational firms: (1) firm learning in a foreign market; (2) market attractiveness of the foreign market. First, foreign investments are not discrete but part of a series of decisions. In making an investment in a foreign market, a firm is actually transferring firm specific advantage. Moreover, firms also expand to foreign markets to develop new competitive advantage (Makino et al. 2002). Therefore, we propose that multinational firm learning in a foreign market will have a significant effect on the pacing of sequential entry activities. Second, the decision to expand to a foreign market depends on the market condition and opportunities. External market signals including market growth rate and competition should be key factors to explain the pacing of sequential entry activities of multinational firms. Therefore, we hypothesize that

H1: When a multinational firm possesses prior experiences in a foreign market, the pace of entry activities will speed up.

H2: When a firm expands into a new product sector in a foreign market, the pace of entry activities will slow down.

H3: When a firm expands into a new location in the foreign market, the pace of entry activities will slow down.

H4: When a firm enters a product sector of higher growth in a foreign market, the pace of entry activities will speed up.

H5: Investments by rival firms in a product sector will speed up the pace of entry activities of multinational firms in that specific sector.

Methodology

We test the hypotheses using a longitudinal dataset of sequential entry activities by the Fortune Global 500 U.S. firms in China from 1979 to 2002. We selected U.S. firms
that either appeared on the list of the Fortune Global 500 of 1990 or the list of 2002. The entry information comes from a trade magazine, China Business Review. Of the 314 selected U.S. firms, 150 firms have made investment in China during this period and made a total of 730 investments. We obtained the firm level and industry level information from the Compustat (North America) database, China Statistical Yearbooks, and other sources. The method of generalized estimating equations (GEE) was employed for this study.

**Results and Discussion**

From the empirical results, we found that the pace of investments will be faster when multinational firms have had prior sales experience in a foreign market, when competing firms have made investments in the same product sector, or when the foreign market experiences rapid growth. However, the pace will be slower when the firms are expanding into new product sectors and new geographic locations. Our study provides evidence of firms learning in a foreign market. Foreign expansion is actually a form of constrained adaptation to growth opportunities (Martin, Swaminathan, and Mitchell 1998).

The purpose of this study is to contribute to the emerging research stream of sequential entry activities and provide more insight on the sequence of entry activities of multinational firms in a foreign market. We hypothesize and empirically test the impacts of firm learning and market attractiveness on the pacing of sequential entry activities. This study is among the first wave of efforts in understanding the speed of investment activities undertaken by multinational firms in a foreign market. References are available upon request.

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TESTING INTERACTION EFFECTS OF THE DIMENSIONS OF MARKET ORIENTATION ON MARKETING PROGRAM NOVELTY: TWO-STAGE LEAST SQUARE ESTIMATION APPROACH

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Subin Im, San Francisco State University, San Francisco
Sanjit Sengupta, San Francisco State University, San Francisco

SUMMARY

Extant literature on market orientation (MO) has focused on examining how market orientation directly impacts a firm’s performance (e.g., Kohli and Jaworski 1990; Slater and Narver 1995), or an innovation outcome (e.g., Han, Kim, and Srivastava 1998; Im and Workman 2004; Langerak, Hultink, and Robben 2004; Lukas and Ferrell 2000). Despite the plethora of research on market orientation after the seminal work by Narver and Slater (1990) and Jaworski and Kohli (1990), our understanding of how different dimensions of market orientation (MO) interact with each other in generating new intelligence for marketing programs is limited. Though previous market orientation literature examines the interaction effects between market orientation and environmental moderators (i.e., market and technological turbulence) on the innovation outcomes (e.g., Gatignon and Xuereb 1997; Han et al. 1998), the examination of interaction effects among dimensions of MO on the generation of novel marketing programs has not been explored.

Using Narver and Slater’s (1990) three dimensions of MO—customer orientation (CUO), competitor orientation (COO), and cross-functional integration (XFI), we aim at developing and empirically testing a model where these dimensions interact with one another in synergistically improving a firm’s generation of new and innovative ideas for marketing programs (e.g., advertising, promotion, warranty, package, pricing strategy, distribution channel) in the new product development context. Thus, our study contributes to the provision of empirical evidence on the synergistic effects of the dimensions of MO on the generation of novel marketing programs. In testing the synergistic interaction effects, we adopted the two-stage least square (2SLS) estimation procedure. Therefore, this paper contributes to the clarification of interaction effects among MO dimensions on the generation of marketing program novelty as well as to provide a roadmap to test interaction effects using 2SLS for multi-item measures.

In empirically testing such effects, we used 206 survey responses collected from product managers in high-tech industries and the two-stage least square (2SLS) SYSLIN procedure in SAS, following Bollen and Paxton’s (1998) approach. In order to verify the robustness of our estimates we also used ordinary least square (OLS) method and found that both 2SLS and OLS procedures produce consistent estimates. However, R² values indicate that 2SLS procedure (R² = .17) provides a better overall fit of the model than OLS procedure (R² = .12).

We found positive interaction effects between CUO and COO and between COO and XFI on the generation of marketing program novelty, while we found no interaction effect between CUO and XFI. The positive interaction between CUO and COO indicates that a firm’s balanced focus on customers and competitors helps it accelerate the generation of novel marketing programs. The positive interaction between COO and XFI indicates that a competitor oriented firm that is keenly aware of threats and opportunities in a competitive high-tech environment tends to generate novel marketing programs when internal functional groups communicate and interact closely with each other. Additionally, our results indicate that the interaction between COO and XFI appears to provide a more potent effect on marketing program novelty than that between CUO and COO does.

Our findings support the claim that different perspectives of MO should be combined (though not uniformly) to accelerate the generation of new market intelligence for products and programs (e.g., Gatignon and Xuereb 1997). Our empirical results imply that managers should not myopically focus on improving one perspective of MO in isolation in order to generate novel marketing programs. Managers should be aware that some combinations of the dimensions of MO—CUO and COO, and COO and XFI—provide synergistic effects on the generation of novel marketing programs in high-tech industries. References available upon request.
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THE DYNAMICS OF COMPLEMENTS UNDER PRESSURE OF INNOVATION

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SUMMARY

An area that has received some recent (e.g., Shocker, Bayus, and Kim 2004), but sporadic attention has been the importance of complements in sustaining a competitive advantage, and the importance of appropriately responding to new technologies (Lee and Grewal 2004). Most related studies in business have focused on user networks and less on the producer and complement networks. In this paper, I add to the research mentioned above and address the issue of dynamics within the complement network, when they are faced with innovation within the producer network, to which they serve as complements or auxiliaries to. Specifically, I propose a conceptual model that examines responses from complements to innovation within a network in industries characterized by externalities.

As per the proposed model, firms adopt different strategies, in order to meet different growth and profit objectives and achieve superior performance in the network, argued to be the result of ensuring the best fit between strategy and structure of the firms offering products to a common market (Jones and Hill 1988). The questions addressed are:

1. What strategic actions are available to a firm in a complementary industry when firm(s) in the focal product industry decides to innovate? And

2. What factors could affect the above decision?

The demand for the focal product and complements are cross elastic in nature, implying that the demand for the complementary product is driven by the demand for the focal product. On the flip side, the demand for the focal product is in many cases driven by the demand for the network of products and services that add value to it. For example, the windows operating system owes a large part of its popularity to the large network of complements that has developed around it. Compatibility becomes an extremely important issue, because the company issue, because the company has to depend on its market knowledge, resource capability, and partner selection to maintain its position within the industry and in relation to the focal market that it complements.

An innovation within the producer network often requires a corresponding product or process innovation within the complement network. In the first of two resulting scenarios, the complement firms do not have access to resources to follow the innovation or execute the desired strategy to coordinate its value creating activities with the focal producer. If the resources required cannot be assembled within the firm boundaries or if the risk to be borne by a single firm is too high (Sengupta 1998), incumbents may be forced to enter into agreements with the firms that have these capabilities (Greis, Dibner, and Bean 1995), forcing alliances with competitors or attempt to build these competencies in house (Zucker and Darby 1997). In the second scenario, producers of complementary products resist changes made by the focal producer either due to the uncertain future of new technology within the dynamic market system. The decision to innovate can be a dangerous one for the producer firm also, owing to the uncertainty in the expected response or adoption decisions from the user and complements network, owing either to the failure of a clear winner to emerge in the standards war (competition), such as in the early market for PDA’s or due to the existence of multiple standards, such as in the operating systems market.

In developing the model, the paper makes arguments against the backdrop of complex or high technology networks since it has been argued that components of complex technologies have multiple interactions and constitute a non decomposable whole, the systemic characteristics of which comprises of elemental components organized as hierarchical subsystems, often exhibiting multiple interactive and feedback patterns (Singh 1997).

We use network theory, the resource-based view and prior research in the area of innovations, complements, and technology in marketing and management to argue for negative relationships between (a) distance between focal product technologies at two time periods and speed of adoption by firms in the complementary product industry (b) complementary firms required investment to adopt the change and the speed of adoption (c) size of the complements network and speed of adoption (d) size of the producer network and the complements commitment to adapt to the innovation; Positive relationships between (a) size of user network and speed of adoption by the complements network (b) size of user network and greater commitment to adopt the innovation (c) size of the producer network and the number of formal relationships between firms in the producer and complement networks; Positive moderating role of environmental uncertainty on
the relationship between (a) required investment and speed of adoption (b) size of the producer network and the number of formal relationships (c) size of the complements and speed of adoption and (d) size of the producer network and the commitment to adopt the innovation.

The research provides a model to explain the action of the complements, given the decision of the focal firm to innovate. Given certain market conditions, such a model that attempts to determine the probability of the complementary product firms to adapt to the innovation serves as a building block for managers to choose new product strategies and utilize the complementary network to maximize the value of the product system. Significant challenges posed to the model include empirical validation and the inclusion of variables of competition which would give a better understanding and a clearer picture of how the responses of complement firms can be shaped.

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EFFICIENT IDENTIFICATION OF LEAD USERS: SCREENING VS PYRAMIDING

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SUMMARY

In order to find ideas for leading edge innovations, the lead user method recently gained much interest. A current survey shows that new product concepts generated by the lead user method exhibit sales potential which is on average over eight times higher than traditionally developed concepts (Lilien et al. 2002).

One very important step is the identification of lead users (e.g., Von Hippel 1988; von Hippel 1995). In order to do so, it is first necessary to define indicators which characterize innovative lead users as well as possible. The search process itself is a creative process which has to be adapted to the specific circumstances of the search field. In general, two approaches can be distinguished: Screening and pyramiding.

In early studies, lead users were identified using a screening method (Herstatt and von Hippel 1992; Lüthje 2000). The screening method is similar to the process of panning for gold. Nearly all users of a given product or at least a representative sample of these users is examined, and these users are screened for a specific characteristic. Finally, only a few nuggets (the lead users) are found. For example, Lüthje (2000) reports on two successful lead user studies (game development and public transportation) in which lead users were identified using the screening method. Altogether, the researchers had contacted 2,043 persons from different populations (game development: 1,369, public transportation: 674) and, based on carefully developed quantitative criteria, had identified 22 lead users among them (10 and 12, respectively) as suitable for inclusion in the lead user workshop. This means that in these two cases, the sampling efficiency was 1.1 percent (0.7%/1.8%) or 98.9 percent of all contacts were eliminated.

Recently, there is a notable switch towards a technique we term “pyramiding” (e.g., von Hippel et al. 1999; Olson and Bakke 2001; Lilien et al. 2002; Lüthje and Herstatt 2004). Instead of selecting the most appropriate users from a large but finite sample (“screening”), the pyramiding technique, a modified version of the snowball sampling method, relies on the fact that people with a strong interest in a topic or field tend to know people more expert than themselves: For example, good IT professionals tend to know the identity of IT people who are even more skilled than they are. Few people are used as starting points. A process of recommendation and referral is applied, and as a result several lead users are identified. This approach is analogous to playing golf. From the start, each stroke (i.e., each referral) brings the player closer to the hole (i.e., the lead user).

In this article, we compare the efficiency of these two methods and analyze which factors impact the efficiency of pyramiding. For this purpose, we combine findings from a case study with high external validity with those from a large scale experiment (in which we simulate 292 pyramiding “chains”) with high internal validity. We find that pyramiding is an efficient approach to identifying leading-edge expertise and appears to be more efficient than screening. Furthermore, several variables explain the efficiency of pyramiding. We found empirical evidence for person-related as well as population-related variables. Findings have implications for managing efficient search for leading-edge expertise. References available upon request

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MARKET ORIENTATION AT THE FUNCTIONAL LEVEL: THE IMPACT OF BOUNDARY SPANNING FUNCTIONS

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SUMMARY

Although the predictive power of market orientation is still open to question, most research on market orientation suggests that the generation, dissemination, and responsiveness to market intelligence leads to higher performance (Langerak 2003). However, previous studies have also pointed out that we have a long way to go in understanding what it means to be market oriented (Day 1994; Dobni and Luffman 2000). While the antecedents, moderators, and consequences of market orientation received considerable attention, more understanding of the nature of market orientation and the role that individuals and functions play in developing a market orientation is needed.

One area in need of investigation is how each function uniquely contributes to the development of a market oriented organization. Although a central aspect of the theory of market orientation is that all functions are responsible for generating, disseminating, and responding to intelligence about the external market (Kohli and Jaworski 1990), it should not be assumed that each function contributes to market orientation in the same manner. Some have suggested that a market orientation is analogous to a symphony orchestra in which a conductor tailors and integrates the contribution of each function and that marketing should play the role of conductor (Narver and Slater 1990). Elg (2002) proposes that a market orientation is instrumental in coordinating the activities of all departments, with the marketing function playing a pivotal role in the success of the firm because everyone is involved in marketing activities. This suggests that each function within an organization plays a unique role in creating a market orientation.

The extent of boundary spanners a function employs is one determinant of its role in creating a market oriented organization. Day (1994) stressed the critical need for spanning capabilities, through outside-in processes and inside-out processes, in building a market oriented organization. Developing these spanning capabilities to generate market intelligence requires individuals within an organization to span organizational boundaries and interact with customers, suppliers, and other market participants. Due to their unique responsibilities, some functions are structured to utilize these boundary spanners because they are focused more on external constituencies while other functions are structured with a focus on internal activities. This research examines the extent of boundary spanning roles a function utilizes, which has yet to be explicitly linked to market orientation research, and how these roles impact a functions’ market orientation.

The market orientation behavior of generating and disseminating market intelligence requires individuals within a function to span the boundaries of both their function and their organization. Although some scholars have conceptualized boundary spanning as the interaction between an organization and its external environment (Kiessling, Harvey, and Garrison 2004), boundary spanning plays a key role in intraorganizational and interorganizational contexts (Nygaard and Dahlstrom 2002; Rangarajan et al. 2004). Thus, this paper conceptualizes boundary spanning as the effective interaction between any group (e.g., function or organization) and those outside the group (Adams 1976). These individuals serve the role of boundary spanners (Russ, Galang, and Ferris 1998; Thompson 1967), defined as individuals who act as agents of a group that serve to relate the group to its environment (Adams 1980, p. 328; Leifer and Delbecq 1978; Lysonski 1985; Rangarajan et al. 2004).

The basic argument for the critical nature of boundary spanning is that information learned about environmental contingencies must be provided to decision-makers to make appropriate decisions (Leifer and Delbecq 1978; Rangarajan et al. 2004). This transferring of information across boundaries makes boundary spanning activities essential to becoming more market oriented. Adams (1980) and Aldrich (1979) suggest that one of the central roles of a boundary spanner consists of information processing, which is scanning the environment for information relevant to strategic planning, managerial decisions, and technical developments, i.e., market intelligence (Rangarajan et al. 2004).

Functions differ in the number and type of boundary spanning roles which exist, and the degree to which these roles are purposefully created and formalized. While it is generally hypothesized that environmental uncertainty increases the need for boundary spanners (Hrebiniak and Snow 1980), theoretical support exists for the argument that the responsibilities and position a function has within the organization partially determines the number and type of boundary spanning roles that a particular function maintains (Hickson et al. 1971; Schwab, Ungson, and Brown 1985). A function’s responsibilities determine its
need for environmental exchanges and transactions, which directly affects the development of boundary spanning roles by the function (Thompson 1967). Dearborn and Simon (1958) found that environmental scanning is related to function position. That is, certain functions inherently require dealing with the external environment more than others, and thus require more boundary spanning roles (salesman, logistician, etc.) (Schwab, Ungson, and Brown 1985).

Most market orientation research has largely been conducted from the perspective of the marketing function because it has been assumed that marketing facilitates the link between the customer and various key processes within the firm (Day 1994; Moorman and Rust 1999). Some non-marketing functions, on the other hand, are uniquely positioned to generate market intelligence because they span boundaries with customers, competitors, and suppliers. Additionally, some functions are tasked with the role of spanning internal functional boundaries more than others. This research explores the importance of boundary spanning in determining the unique role of non-marketing functions in generating, disseminating, and responding to market intelligence. References available upon request.

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MANAGEMENT-SUBORDINATE TASK RELATIONSHIP,
ORGANIZATIONAL EFFECTIVENESS, AND BUSINESS
PERFORMANCE: AN EXPLORATORY STUDY

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SUMMARY

A significant portion of top management’s attention is constantly on how to build an effective organization. Organizational effectiveness factors, such as a market-oriented workforce, service quality, and job contentment, have direct implications on business performance. To date, limited empirical work has been done to examine the effect of management behavior and management-subordinate (M-S) collaboration in the marketing context. Furthermore, although the effects of market orientation and service quality on business performance have been widely reported in the literature, not much has been shown on how top management influences the formation of a market-oriented workforce and superior service quality.

Top management plays an important role in forming a market-oriented culture and delivering high quality services to customers. An intriguing factor that helps shape the formation of a market oriented culture is the way top management exerts its influence on subordinates through various management behaviors. Such influence can have fundamental impact on the behavior of the subordinate and the subsequent M-S relationship. The significance of customer and market orientation, i.e., the implementation of the marketing concept, the foundation of modern marketing theories and practices, has been closely examined in the marketing and management literature. Theoretical frameworks and consequences of market orientation have been developed and empirically tested (Kohli and Jaworski 1990; Narver and Slater 1990). Some recent empirical work has focused on how to assess the effect of market orientation on business performance via various mediating and situational variables (e.g., Chang and Chen 1998; Han, Kim, and Srivastava 1998; Slater and Narver 1994). The importance of service quality, another effectiveness factor, has also been reported in the literature (e.g., Zeithaml, Berry, and Parasuraman 1996).

The present study investigates how M-S task relationship, as measured by management behavior and M-S collaboration, may affect overall organizational effectiveness, as measured by market orientation, service quality, and job contentment. Their effects on business performance are scrutinized and important managerial implications as well as future research directions are provided.

Specifically, the following issues are examined:

1. How does M-S task relationship affect organizational effectiveness?
2. What is the relationship between management behavior and M-S collaboration?
3. Is there a relationship between organizational effectiveness and business performance?
4. Is there a direct effect of M-S task relationship on business performance?

A packet of survey questionnaire along with a cover letter was delivered to respondents in a major U.S. metropolitan area. Each respondent received a questionnaire along with a cover letter. On average, respondents completed the survey in about 20 minutes. The participation was voluntary. Respondents were asked to fill out the questionnaire at their convenience and return it within one week. A total of 1,200 questionnaires were distributed, resulting in 330 completed, valid responses (27.5% response rate). The sample comprises middle-level and lower-level managers from a variety of industry sectors.

The results show that both task relationship factors, management behavior and M-S collaboration, have significant effects on market orientation, service quality, and job contentment (all regression models have significant F values). Closer examinations reveal that a supportive behavior not only has the strongest effect on market orientation, but also has the strongest effect on service quality. The two collaboration factors, common-goal relationship and mutual dependency, have significant effects on market orientation and service quality.

The effects of management behavior are intriguing. A management behavior that encourages participation decreases the amount of conflict, yet increases the job switch intention. A supportive behavior by the management promotes conflict, but decreases job switch intention. As for collaboration factors, while mutual dependency has a positive effect on job satisfaction, a common-goal relationship has a significant effect on job satisfaction and lessens job switch intention. The overall effect of
organizational effectiveness on business performance is significant. Both market orientation and service quality are found to have significant effects on the four performance measures. Among the five service quality components, tangibility and empathy show more consistent effects, while reliability and responsiveness show little effect. Among job contentment items, job satisfaction has the strongest effect on performance measures.

The relationships among M-S task relationship, organizational effectiveness, and business performance are supported. Although most of the regression beta coefficients are based on multiple regression models, we investigate the reliability of those coefficients by examining correlation matrices and stepwise regression models and found that, with a few exceptions, the results were consistent. In addition, we examine the direct effects of management behavior and collaboration on business performance.

The goal-oriented management behavior and common-goal relationship has a consistent, significant effect on all of the four performance measures. Finally, both market orientation and service quality are found to promote conflict, while enhance job satisfaction and reduce job switch intention.

Future research may further examine the direct and indirect linkages among management behavior, collaboration, market orientation, job contentment, and various business performance factors in various companies, industries, and cultures. The relationships among these constructs may paint a clearer picture on how these constructs interact. Future research effort may also be directed toward how various corporate marketing factors, such as the choice of marketing strategy, influence a firm’s orientation toward the market and its customers. References available upon request.

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WHAT SHOULD FIRMS FOCUS IN TIMES OF TURBULENCE?
AN EMPIRICAL STUDY OF STRATEGIC ORIENTATION
AND PERFORMANCE IN CHINA

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SUMMARY

In the past decade, market orientation has received great attention from marketing scholars due to its pivotal role in the marketing discipline (e.g., Day 1994; Jaworski and Kohli 1993; Matsuno, Mentzer, and Oszomer 2002; Slater and Narver 1994). However, market orientation is not the only viable business approach and researchers call for extension of market orientation research by considering other types of strategic orientations (Noble, Sinha, and Kumar 2002; Voss and Voss 2000). To date, research on strategic orientation has mainly focused on western settings, leaving the generalizability of the findings an open issue (Deshpand and Farley 2000). The rapid changes and high uncertainties in transitional economies raise strategic problems for enterprises (Hoskisson et al. 2000). However, given the limited research in this area, what type of strategic orientations firms should follow in such turbulent environments remains largely unknown (Peng 2003). To address these research questions, we examine the impact of different types of strategic orientations in a transitional economy, China. Further, we investigate the possible moderating effect of competitive environment on strategic orientation-performance relationship.

Theory and Hypotheses

Strategic orientation reflects strategic directions implemented by a firm to guide its proper activities for continuous superior performance (Gatignon and Xuereb 1997). Following Gatignon and Xuereb (1997), we take a disaggregated view of market orientation and study three most important orientations: customer, competitor, and technology orientations (see also Voss and Voss 2000). We take the contingency perspective in this study. The contingency perspective is rooted in the concept of matching organizational strategy with the corresponding environmental context (Ginsberg and Venkatraman 1985). There are no universally optimal strategic choices for all businesses. Firms that properly adapt their strategies to environmental contexts can achieve optimal performance (Ginsberg and Venkatraman 1985; Miller 1988; Venkatraman and Prescott 1990). Drawing upon the literature, we propose that:

H1a: Customer orientation has a positive effect on business performance.
H1b: Competitor orientation has a positive effect on business performance.
H1c: Competitor orientation has a stronger effect on business performance than customer orientation.
H2: Technology orientation has a positive effect on business performance.
H3: The greater the demand uncertainty, the weaker the effect of customer orientation on business performance.
H4: The greater the technological turbulence, the stronger the effect of technology orientation on business performance.
H5: The greater the competitive intensity, the stronger the effects of competitor orientation on business performance.

Methodology and Results

Our sample consists of 420 brands (SBUs) from 52 consumer product categories in China. Two managers for each brand were selected as key informants. Altogether we obtained usable responses of 408 brands with a response rate of 97 percent. Most measures used were adapted from previous research and some were developed specially for this study. We refined the measures and assessed the construct validity following a two-step approach recommended by Anderson and Gerbing (1988). The results show an adequate level of reliability and validity.

Hierarchical moderated regression was employed for hypotheses testing (Aiken and West 1991). The result shows that customer orientation has no significant effect on performance. Hence, we find no support for H1a. H1b predicts that competitor orientation leads to greater performance and receives support. The results suggest that
competitor orientation has a stronger effect on performance, lending support to H1c. Technology orientation positively affects performance and H2 is supported. The results show that when demand uncertainty is high, the effects of customer orientation on performance are weaker and hence H3 is supported. The results also show that when a firm faces a higher level of technological turbulence, technology orientation has a stronger impact on profitability and product performance. Therefore, H4 is partially supported. None of the interaction terms between competitive intensity and strategic orientations are significant, lending no evidence for H5.

Discussion

Our findings provide the following implications to the literature. First, contrary to the generally hold notion that customer orientation is beneficial to firm performance (Deshpand, Farley, and Webster 1993), we find that customer orientation has no significant effect on firm performance. Meanwhile, our findings indicate firms possessing higher levels of competitor and technology orientation can achieve better performance. Therefore, companies should be aware the limitations of customer orientation and should not ignore other viable and potentially lucrative strategic orientations.

Second, we find some support for the moderating role of competitive environment on the strategic orientation-performance relationship. The results echo the suggestions of Voss and Voss (2000) and Noble, Sinha, and Kumar (2002) and indicate that no single orientation can lead to superior performance under all situations. Hence, the recommendation for which type of strategic orientations to adopt is environment-contingent. Firms need understand environmental, competitive factors and other market characteristics before developing its orientation to achieve competitive advantage. References are available upon request.

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A LONGITUDINAL STUDY OF THE CONSEQUENCES OF THE CHANGES IN SALES CALL FREQUENCY IN THE SUPPLIER-CUSTOMER RELATIONSHIP

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SUMMARY

Evidence from the last two decades documents significant research efforts, producing a substantial body of literature on, and in favor of, relationship marketing. Yet, recent findings have cast doubt on some of the fundamental assumptions of long-term relationships. For example, results from Reinartz and Kumar (2000) demonstrate that long-life customers are not necessarily profitable customers. On the other hand, a major criticism of past studies examining buyer-seller relationship is that they have employed cross sectional (single survey) designs. However, examining the evolution of buyer-seller relationships ultimately requires a study design to capture events which unfold over time (Frankwick et al. 2001).

Though business relationships are established between organizations, they are actually managed by individuals, and the salesperson is still the primary point of contact for the customer in industrial markets (Homburg and Stock 2004), and more importantly, in competitive environments, organizational buyers who are interested in establishing long-term relationships are increasingly demanding higher level of contact and value-added services from salespeople (Liu and Leach 2001). In this context, on one hand, recent findings from Schultz and Evans (2002) show that frequency of communication was a key aspect in relationship building. They conclude their study by calling for further research to: “examine frequency at different points in a relationship” (p. 29). On the other hand, preliminary evidence from DelVecchio et al. (2003) suggests that when the buyer occupies a higher level of authority within his or her firm, specific sales tactics tend to have better results than others.

The present study addresses two research questions in the context of established supplier-customer relationships: (1) how does a change in the sales call frequency affect the supplier-customer relationship in the long-term in terms of sales effectiveness, perceived service quality, perceived value for money and overall satisfaction? and (2) are these effects moderated by the length of the buyer-seller relationship and the hierarchical position of the contact person in the buying organization?

Data were gathered thanks to the close and continuous co-operation of one industrial supplier. Three salespeople of similar characteristics were selected from this company. Next, the supplier firm provided us with a list of all the customers assigned to each salesperson. We randomly selected 140 customers per salesperson (making a total of 420 customers). These customers were called on once a month. Pre-notification postcards were sent to each firm. Brief questionnaires were sent to the key contact person in each organization (either the general manager or the purchasing manager), along with a postage-paid envelope and a cover letter from the seller management introducing the study and encouraging participation. Completed questionnaires were received from 360 buyers, giving a response rate of 85.71 percent in the first survey. Data were split in two halves to provide a control group and a survey group. In this step, we aimed to create two similar groups of companies. Over the two-year period since the first survey took place, call frequency remained the same in the control group (once a month), whereas it was increased to two a month in the survey group. Twenty-four months later a second survey was conducted, yielding a 99.16 percent response rate. The final sample for data analysis is comprised of 180 buyers from the control group, and 177 from the survey group.

Hypotheses were tested using analysis of variance (ANOVA) for each of the dependent variables: sales effectiveness, perceived service quality, perceived value for money, and overall customer satisfaction. Mean levels of these variables were tested across the different levels of the categorical independent variables: group, salesperson, length of relationship, and contact person. Findings reveal that all the dependent variables were significantly higher in the survey group than in the control group. To test for the moderating effects, two interactions between group and length of relationship and group and contact person were also calculated for each of the dependent variables. Length of relationship seems to moderate the influence of an increase in call frequency on sales effectiveness, perceived service quality, and customer satisfaction, yet, it does not have a moderating role when the dependant variable is perceived value for money. Finally, results indicate that the higher the hierarchical position of the contact person in the buying organization, the stronger the effect of an increase in sales call frequency on all of the dependent variables.
This study provides empirical support to the contention that suppliers have quickly recognized the pivotal role their sales force plays in relational exchange. The effectiveness of selling activities, such as sales call frequency, is becoming critically important to suppliers who wish to pursue partnerships with their key customers. In this context, our results indicate that an increase in sales call frequency has a positive effect in sales effectiveness, perceived service quality, perceived value for money and overall customer satisfaction. This provides further empirical evidence to the contention that a salesperson’s activities (e.g., calling on customers) influence key outcomes at the organizational level (Churchill et al. 1985). In addition, this research extends recent work by Schultz and Evans (2002) and DelVecchio et al. (2003), indicating that the impact of interpersonal interactions on organizational outcomes is, to some extent, time and context-dependent. In particular, the effects of an increase in contact intensity on such organizational outcomes seem to diminish over time, and are stronger the higher the hierarchical position of the contact person in the buying organization.

The present study is built on the principles of relationship selling (e.g., Jolson 1997; Weitz and Bradford 1999). That is, the sales force adopts a relationship or “partnering” strategy whereby they assist customers to create value by increasing personal contacts, among other things. Yet, it can be argued that relationship selling represents just one of several approaches to personal selling. For instance, the benefits of the frequency of contact and communications may lead to the misconception that all organizational buyers prefer to be called on and be closely monitored. In fact, some organizational buyers may not desire excessive contact (Liu and Leach 2001), and long-term relationships may be neither feasible nor strategically warranted (Evans et al. 2000). Future research should certainly address this issue. References available upon request.

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COPING WITH INFORMATION OVERLOAD IN
A SALES ENVIRONMENT

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SUMMARY

The sales management literature implies that salespeople can be overloaded with information. This implication is made through the discussion of methods that reduce the amount of information (e.g., sales force specialization, sales teams) but are more costly to operate (Johnston and Marshall 2003; Weitz and Bradford 1999) and more difficult to manage (Dixon, Gassenheimer, and Barr 2002). Due to the increased operational and managerial costs of solutions, it is important to determine how the effects of information overload can be reduced. By reducing the impact of information overload on the sales force, management may be able to avoid or at least postpone the cost increases associated with other solutions to information overload. The primary objective of this study is to identify coping styles that can reduce the harmful effects of information overload on salespeople.

Information overload refers to a state, evoked by exposure to an amount of information exceeding an individual’s ability to process or assimilate during a given amount of time (Jacoby, Speller, and Kohn 1974). While this definition is based in the information processing literatures (Miller 1956; Malhotra 1982), research suggests that salespeople must process large amounts of information in order to be effective. Spiro and Weitz (1990) suggest that one dimension of adaptive selling is gathering information about the customer. Salespeople are seen as sources of information about customers (Chonko, Tanner, and Smith 1991). Salespeople must collect information in order to correctly categorize consumers (Leong, Busch, and John 1989). Part of a salesperson’s job is to reduce the amount of information given to customers by deciding which is more appropriate for that customer’s situation (Williams, Spiro, and Fine 1990). Exposure to such large amounts of information suggests that salespeople might also suffer from the effects of information overload. Information overload is characterized by two outcomes, increasing errors and negative affect such as confusion or frustration (e.g., Jacoby et al. 1974).

Conceptual Background

These two outcomes suggest that increasing information overload should reduce salesperson performance and job satisfaction. An indicator of effective salesperson performance is the use of an elaborate and detailed mental classification system for consumers (Sharma, Levy, and Kumar 2000; Sujan, Weitz, and Kumar 1994). Errors in classifying consumers should reduce the effectiveness of such a classification system. Similarly, incorrect statements should tend to lower consumer perceptions of salesperson expertise and expertise has been shown to be a predictor of sales performance (Boles, Johnson, and Barksdale 2000; Busch and Wilson 1976). Job satisfaction is defined as “a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experiences (Locke 1976, p. 1300).” Given that information overload involves negative affect (e.g., frustration) it follows that it will be negatively related to job satisfaction.

Coping refers to an individual’s efforts to manage the psychological demands of any environment that is straining the person’s resources (Folkman et al. 1985; Strutton and Lumpkin 1993). Information overload theory suggests that when a salesperson’s ability to assimilate and process information is being strained, some type of coping strategy should be implemented. Two broad types of coping strategies that have been investigated in the sales literature are problem-focused coping (PFC) and emotion-focused coping (EFC) (Srivastava and Sager 1999; Strutton and Lumpkin 1993). While PFC has been found to be related to positive salesperson outcomes, EFC has generally been considered to be detrimental to sales performance (Strutton and Lumpkin 1994).

However, emotion focused coping strategies may attenuate the effects of information overload. Emotion focused coping strategies seek to reduce or eliminate emotional distress. An outcome associated with information overload is negative affect such as confusion or frustration. By reducing these negative emotions, emotion focused coping strategies should offset their influence on job satisfaction and performance.

Method and Results

In order to test the hypotheses, a mail survey was sent to 798 insurance agents in Illinois. Insurance agents were chosen as the sample because a recent trend in the industry and the nature of their products suggest they would likely suffer from information overload. Many companies within the insurance industry are offering a broader and more complex product line as they attempt to gain market share
in the financial services industry. Two hundred and four usable responses were returned for a response rate of 26 percent.

Analysis of the role of EFC used techniques described by Baron and Kenny (1986) to test for moderation. The moderating influence of EFC is supported by the data because the addition of an interaction term comprised of the product of information overload and emotion focused coping is significant for both sales performance ($t = 3.447, p < .05$) and job satisfaction ($t = 2.257, p < .05$). A moderated relationship is supported because the difference between the R square statistics before adding the interaction variables and after adding the interaction variables are significant for sales performance ($F = 12.02, df = 1, 200, p < .05$) and job satisfaction ($F = 5.02, df = 1, 200, p < .05$). These results offer evidence that emotion focused coping strategies can attenuate the effects of information overload on sales performance and job satisfaction. References available upon request.

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A MODEL OF SALES MANAGER COMMUNICATION EFFECTIVENESS FROM THE SALES MANAGER’S PERSPECTIVE

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SUMMARY

With feedback from salespeople, sales researchers have positioned communication as a critical skill required for success in sales management (Dubinsky and Ingram 1983; Mehta et al. 1999). What is lacking, however, is an examination of sales force communication from the sales manager’s perspective. Moreover, researchers have not explored other “people” skills possessed by a sales manager that could also influence communication quality and, in turn, key outcome variables. We advance the understanding of the role of communication quality and its importance to sales outcomes by building upon previous findings, but examining this critical construct through survey data from a new perspective – that of the sales manager.

In developing our model, we define communication quality as the extent to which sales managers perceive that communication flows occur in a timely manner and are relatively accurate, relevant, clear, and effective (O’Reilly 1982; Stohl 1987). We consider the antecedent variables of human relations skills, participative leadership, organization and time management skills, empowerment, and honesty (Deeter-Schmelz, Kennedy, and Goebel 2002).

We identify three outcome variables as consequences of communication quality. These include manager job satisfaction, goal achievement, and manager’s satisfaction with sales representative. In addition, we position sales representative development as a variable moderating the relationship between communication quality and (1) goal achievement, and (2) manager satisfaction with sales representatives.

Methodology and Results

The sample for this study is composed of sales managers who have attended sales manager training programs offered throughout the United States by a consulting firm located in the southeastern part of the country. In total, 91 usable questionnaires were returned by the training program instructor.

Multiple regression was used to test the proposed relationships among the variables. The results identify organization skills as a significant predictor of the sales managers’ communication quality with his/her representatives. Contrary to what was anticipated, the other proposed antecedents of communication quality were not significant. Given these preliminary results it appears that a sales managers’ human relations skills, leadership abilities, willingness to empower his/her representatives, and honesty with representatives do not impact the managers’ communications with his/her representatives.

The results also indicate that communication quality with representatives is a significant predictor of sales managers’ job satisfaction, his/her goal achievement, and satisfaction with representatives. On the other hand, the relationship between communication quality and goal achievement and the relationship between communication quality and satisfaction with sales representatives is not moderated by sales representative development.

Discussion

Consistent with communication research of the sales manager-sales person relationship, we have found that communication quality is important to job outcomes from the perspective of sales managers. To date, no other research had examined how sales manager-sales representative communication affects a manager’s job satisfaction. Our study addresses this gap in the literature, suggesting that high quality communication between the manager and representative can improve the manager’s satisfaction with his or her job.

Most notable of our findings were the strong significance of organization skills to communication quality and subsequently the indirect effect of organization skills on the sales managers’ job satisfaction, goal achievement, and satisfaction with sales representatives. While time management skills are widely recognized as important for the efficient completion of the sales function for both sales representatives and sales managers (cf., Weitz, Castleberry, and Tanner 2004; Dalrymple, Cron, and DeCarlo 2003), research in the sales area has provided only a cursory understanding of the theoretical role of time management to sales outcomes.

Our results also established a link between communication quality and goal achievement. This result reiterates an important point – that for communication to be effec-
tive, achievement of goals is necessary (Lakey and Canary 2002). Future research should examine managers’ versus representatives’ perceptions on this issue.

Our review of the literature suggests this present study is the first attempt in the sales literature to investigate managers’ satisfaction with sales representatives. As expected, a positive relationship between communication quality and manager satisfaction with sales representative was found. Again, this finding highlights the critical part that communication plays in the salesperson-sales manager relationship. A logical extension of this investigation would be to add manager assessment of sales representative job performance to the research model. References available upon request.
ALL CO-PRODUCTION IS NOT CREATED EQUAL: A VALUE CONGRUENCE APPROACH FOR EXAMINING THE DEGREE OF CO-PRODUCTION

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ABSTRACT

The new dominant logic proposed by Vargo and Lusch (2004) posits that all marketing transactions are co-produced. Adopting this customer-centric view, this paper addresses two objectives; first, it indicates that greater co-production does not always yield more benefits and second, it proposes a value-congruence framework that integrates firm and customer perspectives with the appropriateness of any co-production activity.

INTRODUCTION

The service-centered view of marketing recognizes that the marketing function encompasses more than just the simple exchange of goods. Instead it posits that marketing is about continuous relationships through which the creation of value is achieved by firms collaborating with customers and adapting to their needs (Vargo and Lusch 2004). From this perspective the customer is an integral part of the firm’s value proposition and marketing practitioners and researchers are increasingly exploring the manner that the customers’ competencies can be co-opted to more effectively deliver this value (Prahalad and Ramaswamy 2000). This service-centered view proposes that the customer is always an active participant in the value creation, and is “co-producing” the service with the firm. Current research in this area tends to focus on the manner that firms can increase co-production activities but little research has examined customers’ perception of co-production (see Bendapudi and Leone 2003). Operationally co-production has generally been treated as a categorical condition with little recognition that there may be different levels. This paper is firmly rooted in an experience-centric, co-creation view (see Prahalad in Day et al. 2004) and from this perspective it addresses these gaps in the literature. First, the paper briefly summarizes the co-production literature. Second, a value congruence framework is proposed that addresses the importance of matching firm and customer value when designing and implementing co-production processes. Finally, managerial implications and directions for future research are discussed.

LITERATURE REVIEW

Co-Production

The necessity of customer participation in services has long been recognized by marketers (Bateson 1985). However, customers have often been regarded as a limitation on the performance and efficiencies of the system (Bateson 2002; Chase 1978). It is increasingly being recognized that rather than limiting efficiency, customers may actually improve the system by performing tasks that were once reserved for the firm (Lovelock and Young 1979), or by providing distinctive competencies and resources that the firm does not possess (Prahalad and Ramaswamy 2000).

The new marketing paradigm, according to Vargo and Lusch (2004) posits that all marketing exchanges are co-produced. As soon as the customer engages in their role in the system, they are active participants, and hence co-producers. However, what is not addressed in this article, and receives little empirical support in the literature, is the variation in the amount of participation by the customer. At the lowest level of co-production the customer is active insofar as they consume the product, but plays a limited role in the creation, design, and delivery of the other marketing functions. Compare this to a customer at a store like Ikea who selects a product in the showroom, picks it from the warehouse, loads it into their car, and then assembles the product at home. The latter is playing an active role in distribution, fabrication, and selection of the product in addition to mere consumption. It is evident therefore that the amount of participation may differ and it is important that these differences in the degree of co-production are recognized.

Definitions of customer participation in co-production recognize that there are different levels of participation. Silpakit and Fiske described customer participation as “the degree of consumers’ effort and involvement, both mental and physical, necessary to participate in the production and delivery of services” (Silpakit and Fiske 1985, p. 117) and Dabhokar (in Bendapudi and Leone
production may also be undesirable for firms. As customers’ needs (Uhl and Upah 1983). Increased co-
service delivery and the inability of employees to react to
delivery. This may lead to a trade-off in customization of
larly when employees become less involved in service
production may not be desirable for customers, particu-
take a more tempered approach. It has been noted that co-
savings, increased control (Bateson 1985; Kelley et al.
loyalty (Halbesleben and Buckley 2004; Kelley et al.
A VALUE CONGRUENCE FRAMEWORK
Research on consumer value proposes that the cus-
tomer is linked to the product experience. Holbrook
(1994) highlights this linkage through four facets of consumer value; interactivity, relativism, affectivity, and
a grounding in the consumption experience. On the inter-
dimension the creation of value is a collaboration of
both a subject and the object (Perry 1954). From a relativ-
istic standpoint value incorporates situational dimensions;
according to Morris (1964), consumer value depends on
the context in which the evaluative judgment is made.
Finally, consumer value is thought of as being derived from
the consumption experience. It is proposed that all
products provide services in their capacity to create need-
or-want satisfying experiences (Holbrook and Hirschman
1982). This places experience at a central position in the
creation of consumer value.

While these definitions recognize the varying de-
gres of co-production this has not often been effectively
realized in empirical work. Even though they define participation by degree, Bendapudi and Leone (2003)
create participation or no-participation scenarios, Bateson
(1985) examines the frequency of participation not the
degree of participation, and Langeard and colleagues
(1981) provide customers a choice between two condi-
tions, less-participative and more-participative. There are
a few studies that provide some additional distinctions of
participation, Cheng (1995) divides customers into three
roles; facilitator, co-worker, and service purveyor and
Hsieh and colleagues (2003) identify and measure three
levels of customer participation; low, medium, and high.
This categorical measurement approach is inappropriate
to the continuous service model. If all marketing is co-
produced then empirical research must, by necessity, develop finer more inclusive measures that can address
the levels of co-production.

Benefits and Limitation of Co-Production

Generally research has focused on the benefits of co-
production to the firm and the customer. From a firm
perspective, it is proposed that customer participation has
a positive impact on the efficiency of service delivery
(Lovelock and Young 1979), increased satisfaction and
loyalty (Halbesleben and Buckley 2004; Kelley et al.
1990), an ability to reach new customer segments (Bitner
et al. 2002; Halbesleben and Buckley 2004; Mills et al.
1983), and the reduction of idle effort (Song and Adams
1993). For customers co-production has been associated
with benefits such as lower prices, convenience, time
 savings, increased control (Bateson 1985; Kelley et al.
1990), and more customization (Halbesleben and Buckley
2004).

While the majority of research on co-production high-
lights the benefits of customer participation, some studies
take a more tempered approach. It has been noted that co-
production may not be desirable for customers, particu-
larly when employees become less involved in service
delivery. This may lead to a trade-off in customization of
service delivery and the inability of employees to react to
customers’ needs (Uhl and Upah 1983). Increased co-
production may also be undesirable for firms. As custom-
iers co-develop products with a firm the transparency of
such a relationship poses the risk that customers may
communicate new technology to competitors (Athaide
and Stump 2003) and the reduced contact between em-
ployees and customers when technology is implemented
to facilitate co-production may result in the inability to
recover from service failures (Curran et al. 2003). Firms
also cannot guarantee that the costs of losing the custom-
ers who feel alienated by the service approach and the
costs of socializing customers into their new roles will be
completely offset by the efficiency gains. Finally, the firm
does not control customer based resources, and these may
just as easily be co-opted by competitors. Therefore, the
positive assumption that greater co-production are both
demanded by customers, and will ultimately lead to steadily
increasing degrees of participation and customization in
the market is problematic. Instead of assuming that in-
creased participation will lead to positive firm outcomes,
it is proposed here that firms must identify the appropriate
level of customer participation and design service deliv-
ery systems that work at this level.

We cannot make an overriding assumption that in-
creased co-production will always be beneficial to both
the firm and the customer. As an example, when postal
codes were first introduced in the United Kingdom, custom-
ers did not see the value of these codes and as a result they
were not adopted and the benefits of co-production were
not realized by the firm (Lovelock and Young, 1979).
Naturally, most researchers have focused on the benefits
of co-production and few have explored the limitations of
increased participation. Yet, if all marketing activities are
co-produced, then it is important to recognize both the
conditions under which co-production is highly desired
and those conditions where customers and firms want
limited co-production. To understand co-production we
must examine the value to both firms and customers.

A VALUE CONGRUENCE FRAMEWORK

Research on consumer value proposes that the cus-
tomer is linked to the product experience. Holbrook
(1994) highlights this linkage through four facets of consumer value; interactivity, relativism, affectivity, and
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products provide services in their capacity to create need-
or-want satisfying experiences (Holbrook and Hirschman
1982). This places experience at a central position in the
creation of consumer value.
Perceived value has been described as a “consumer’s overall assessment of the utility of a product or service based on perceptions of what is received and what is given” (Zeithaml 1988, p. 14). For our specific purpose, we seek to dichotomize the consumer and firm perception of perceived value from co-production into two components; a “get” component that represents everything a customer/firm has to gain, and a “give” component that represents everything a customer/firm has to sacrifice to be a beneficiary in a value exchange process. Typical examples of customers’ “get” include quality and satisfaction, and customers’ “give” will include an investment in the form of money (price) or time. The firm is also the beneficiary of the co-production process and has its own perceived value based on what it “gets” and “gives.” In the next section we examine the “get and give” for the firm and the consumer in any co-produced relational exchange.

We posit here that the value of the co-production activity perceived by the firm is a function of these get and give components. We can represent everything a firm gets as a benefit and everything it gives up as a cost in the function

\[ V_f = f(B_f, C_f) \]

where \( V_f \) is the value of the co-production activity perceived by the firm and \( B_f \) and \( C_f \) are the costs associated with the activity. Among the many Benefits (B) firms enjoy are efficiencies in their processes and production costs and time benefits by reducing and controlling the interaction time between service employees and customers and reducing idle effort. Similarly, Costs (C) given up by the firm include risks and investments. Risks involve the risk of defection after an investment in customer training and socialization or the risk that customers may take knowledge about sensitive processes with them when they leave. These services will be less than services with lower levels of complexity. 

**Achieving Value Congruence by Minimizing Deviations**

Mills and Moberg (1982) argue that service operations are primarily about creating value with the customer and incorporating the customer’s value creation into the system. Research in business-to-business cooperation has recognized the strategic implications of co-operative relationships and indicates that a value congruence framework is an effective means of evaluating the costs and benefits of selecting among a range of possible alternatives (Contractor and Lorange 1988). Consider a firm \( F \) that is willing to be part of a co-production activity because of the value \( V_f \) perceived as a function of its benefits \( B_f \) and costs \( C_f \). The customer segment \( C \) with whom the firm is considering co-producing perceives value \( V_c \) as a function of its own benefits \( B_c \) and costs \( C_c \). We posit that maximum benefits from any co-production activity can be derived when there is value congruence. When customers perceive \( l \) benefits and \( m \) costs while firms perceive \( I \) benefits and \( J \) costs with a co-production exercise, the difference in perceived values by the firm is:

\[
\text{MIN } V_{\text{dev}} = V_f(\beta_1 B_1, B_2, ..., B_j, C_f) - V_c(\beta_1 B_1, B_2, ..., B_j, C_c)
\]

The firm wants to minimize \( V_{\text{dev}} \) subject to the cost of doing so. Though the best scenario would be for the firm to have exactly matching interests with the customer in the co-production exercise (\( V_{\text{dev}} = 0 \)), it may not be entirely possible to do so. Thus, the deviation should be minimized to the extent possible.

The firm must focus not only on creating value for itself with co-production activities but must also be concerned that its customer segment is satisfied with the same operation. Thus, what the firm provides becomes a complement to the knowledge, resources, and equipment possessed by the customers themselves and this results in joint value realization by both parties (Mills and Morris 1986). Figure 1 is a simplified representation of a value congruence matrix. Along the horizontal axis of the matrix is the value perceived by the customer segment and along the vertical axis of the matrix is the value perceived by the firm. For any level of co-production values \( V_f \) and \( V_c \) can be attached. These perceived values range from...
very low values for both the firm and the customer segment (top left hand corner of the matrix) to very high values for both the firm and the customer segment (bottom right hand corner). The diagonal along the matrix represents all points which constitute a congruently proportional increase of value from very low to very high in $V_c$ and $V_f$ (top left to bottom right). We posit that the diagonal is the line of maximum efficiency; that is the line along which the deviation of perceived value ($V_c - V_f$) in a co-production activity is minimized. Thus, a firm and its customer segment mutually perceive a congruent value from a co-production activity. When this is true, the combined value is jointly produced by both parties. The matrix is independent of the level of co-production involved in the activity. Therefore, whatever the level of co-production that the firm contemplates, it is imperative to consider the congruence of both customer perceived and firm perceived values before deciding that a particular level of co-production constitutes the best strategy.

MATCHING VALUE PROPOSITIONS

What potential problems does a company face when it does not consider value congruence in co-production? This occurs when points lie off the diagonal. For ease of representation, we dichotomize each of the two continuous variables $V_c$ and $V_f$ into high and low values thereby giving us a 2 X 2 framework with 4 cells indicated in Figure 1. For different co-production activities, various levels of perceived value are possible. In some instances both the firm and the customer see greater value in higher levels of co-production (Cell 4). This has been demonstrated by numerous online retailers. The success of Dell shows that many customers want control over the design and customization of their computers. By placing the tasks of designing and selecting an appropriate system in the hands of the customer, the customer realizes cost savings, convenience, and control, and the firm realizes more efficiency (Stone 2004). On the other extreme the customers want minimal active participation and would rather be served, and that firms may also desire lower levels of customer participation (Cell 1). For example, Rolls Royce sells automobiles to a selective market segment with personalized service.

What is more interesting though, are those conditions when there is incongruence between the desire of the firm and customer. Our focus here is on these cells depicted in Figure 2 and the possible responses to these conditions. In cell 2 customers derive more value from co-production than the firm. In this case, $V_c > V_f$ (Point P). This case may be named opportunity lost; the firm does not recognize a market opportunity. There are two possible options available to the firm in this condition. The first is that the firm can increase their own perception of the value of co-production ($V_f$), in the second the firm can attempt to lower the customer’s interest in co-production ($V_c$). An example of this scenario occurred in the music industry. Customers placed a high degree of value on the ability to acquire individual music tracks and customize CDs. With
no viable commercial option customers employed (illegal) peer-to-peer (p2p) file sharing networks to swap and burn music. Apple recognized this higher demand for participation by the firm and introduced iTunes and their iPod digital player, both of which are currently the industry leaders (Kahney 2005). The record industry took the alternative approach and resisted customer’s demand for online music and instead focused its efforts on shutting down p2p networks like Napster.

In cell 3 customers derive a lower value from participation while the firm derives a higher value from the activity. In this case, $V_c < V_f$ (Point P2). This cell may be called pressure to co-produce. In this case firms are more interested in co-production than customers and their pressure to co-produce may alienate customers. Firms want to return to the diagonal and in order to do so there are two possible approaches. Firms may lower their own expectations of the amount of co-production. That is, firms can accept that their customers are not interested in higher levels of co-production and try to perceive the value in offering a less co-produced alternative. Alternatively firms can try to increase the value that customers perceive from participation. Many grocery stores have successfully moved in this direction with small steps. At one time grocery shopping consisted of delivering a list to the grocer who would fetch groceries, grocery stores have subsequently moved to picking one’s own goods, to packaging them with bulk foods such as coffee, to self-checkouts (Gay 2004). This was not an overnight change and grocery stores have implemented this gradually, while still offering lower participation options.

Value congruence is an important part of a strategic co-production exercise, whatever the level of co-production chosen. Here, we link changes in perceived value of firm and customer operations to a coordinated strategy. However, the value congruence framework calls for a shift in perspective from a producer-customer perspective to a co-production perspective (see Wikstrom 1996).

**MANAGERIAL IMPLICATIONS AND FUTURE RESEARCH**

Customers will vary in their willingness to take an active role in service delivery and this willingness is a function of the perceived value of the co-production activity. It is important that firms are aware of the customers and their own value proposition to identify the congruence or non-congruence, and design co-production systems that minimize the deviation in the value functions. For firms this optimum level of co-production is likely to lead to increased satisfaction as customers’ expectation are met (Churchill and Surprenant 1982; Oliver 1980), increased loyalty (Jacoby and Chestnut 1978) and ultimately improved long term performance (Bridges and Harrison 2003).

One problem facing managers is continuous and frequent change. With the evolution and dissolution of

![FIGURE 2](image-url)
markets and the impact of external forces, a firm’s position on the value-congruence framework is always changing. Thus, a firm must constantly adapt to these changes (see Hayes and Wheelwright 1979 for a similar framework). Future research should examine the implications of the change in the position of a firm in the value-congruence framework; what causes change and what ramifications follow?

Managing co-production is a dynamic process and managers must be aware that any move along one axis will necessitate awareness of the implication for the other axis. As firms increase the level of co-production by offering new, more participative service offerings they must be aware of the impact on customers. They will need to consider that this may attract new market segments, or they may need to encourage their customer segments to adopt a more participative relationship.

Firms are not restricted to only one position on the matrix, they may offer several alternatives. One of the best advantages of a successful co-production activity is the “lock-in” effect that a firm has on a customer segment. Customer segments who find the optimal level of co-production in a service will tend to be loyal, satisfied, and committed to the relationship with the firm. While it is evident that a firm may not be able to satisfy its entire customer base to the optimal extent a firm could offer several levels of co-production. Thus, the firm can effectively create a lock-in with different segments at various levels. Banks offer multiple levels of co-production to its customers. For some customers the banks still offer teller services and personal banking, while other customers are interested in higher levels of co-production, such as online banking, ATM’s, and online trading. Banks offer a full line of options for different levels of participation. This is demonstrated in Figure 3.

**CONCLUSION**

This paper proposes a value congruence approach for examining co-production that considers the strategic positioning of particular levels of participation. As noted, research in co-production has been largely theoretical and has not developed a strong empirical approach to assessing the degree or level of co-production. The framework proposed here offers a first step towards developing a measure of “degree of participativeness” and the implications for firms when selecting co-production strategies.

The new paradigm in marketing proposes that all marketing transactions are co-produced. However, all co-production is not created equal. It is not enough to assume that instituting more co-production is always desired by customers and beneficial to firms. There are conditions under which customers do not want increased participation in services. Similarly, there are conditions where increased customer participation in services may actually have negative outcomes for firms. Firms and customers will desire different levels of participation in the system and, for each level of co-production, there may be a mismatch between the firm-perceived and the customer-perceived value of the offering. For a firm to be effective in finding the right level of co-production requires congruence between the firm-perceived and customer-perceived values of co-production and this congruence is

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**FIGURE 3**
**Multiple Co-Production Offerings**

- **X** – Firm Co-Production Offerings
- **B** – Shaded area denotes a segment of customers to whom the firm’s offerings are appearing
- **A** – Customers in this segment will either need a lower co-production offerings than the firm currently offers, or will need to be encouraged to co-produce more
- **C** – Customers in this segment will either need a higher co-production offering, or will need to be encouraged to co-produce less
achieved by minimizing the deviation between the existing and the optimum amounts of joint value in an offering. Creating effective value congruence frameworks can help managers incorporate the right level of customer participation in an offering and create value by involving the customer in the value creation exercise. In this new dominant logic customers are an important part of the marketing paradigm. Firms must be aware of both their own processes and those desired by customer in designing marketing experiences.

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CUSTOMER CO-PRODUCTION OF SERVICES: REVIEW OF EMPIRICAL LITERATURE AND IMPLICATIONS FOR RESEARCH

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SUMMARY

This paper attempts to compare and integrate the extant empirical research on the concept of customer co-production of services. The goal of this review is to identify and integrate the important sources within the services marketing and management literature that report empirical findings on the concept of customer participation, co-production or similar concepts in services, including self service technologies (SST). Additionally we attempt to augment this collection with the most important studies on user involvement in the IT literature and to develop a unifying conceptual framework which would inform future research on customer co-production. In all, we identified and reviewed 29 sources that contained empirical research: 14 concerned with customer participation in services marketing and management, 5 concerned with user involvement in IT systems, and 4 concerned with SST usage. A table that includes information regarding the methodology, basic constructs, the conceptual approach and key empirical findings for each identified article is available from the authors.

Most of the sources agree that customer participation or co-production represents customers’ contribution of resources to the service exchange. However, there is a wide variety in the ways in which this construct is conceptualized, operationalized, and measured. The literature explicitly argues that customer participation in services should be investigated both in terms of degree and nature (i.e., the roles or type of behaviors that customers perform). Interestingly, only eight sources specifically address the nature of customer participation, and each one is unique.

The key theoretical perspectives and conceptual developments are presented along with the most important empirical findings related to the customer participation construct. While each study addresses only a subset of the factors, in their totality they seem to construct a fairly consistent model for the antecedents, outcomes, and intervening mechanisms of customer co-production of services. A wide variety of theoretical perspectives are used including: involvement theories in consumer behavior, role theory, organizational socialization, cost of quality perspective from manufacturing, organizational participation in decision making, and justice theory.

Not surprisingly, outcomes of customer participation studies varied. In general it is found that more participation leads to higher satisfaction and better service quality perceptions. That is not without contradiction. There are a couple of instances in which higher levels of customer participation do not lead to positive outcomes. The antecedents to customer participation include individual customer differences, service related expectations, customer – service provider relationships, service characteristics, and service provider behavior. Demographics do not seem to have significant effects. Attitudes and needs (e.g., need for control and need for personal interaction) are more important and it appears that there are groups of customers who have a higher propensity to participate regardless of extrinsic motivation. Service related expectations are important factors, especially for the extent of time and effort they need to invest in the service. Expectations for the predictability and controllability of the service experience, enjoyment of the experience and the desirability of the outcomes resulting from their participation in the service all serve as motivating factors for the customer.

Some studies found that the nature of the customer – service provider relationship and the service provider’s behavior are important factors. Particularly interesting is the influence of the nature of the service. The studies which investigated the influence of service production complexity reported puzzling moderating effects on the participation – satisfaction relationship. Further, an important mediator/intervening mechanism is the extent to which customers have been successfully socialized, educated, or achieved appropriate levels of “readiness” for the service experience. Such customers have high levels of role clarity, realistic expectations, motivation and the necessary knowledge and skills to participate effectively. Interestingly, few studies actually measure such variables. Finally, some studies discuss the potential difference between customers’ desired or expected level of participation and customer actual level of participation in the service production. This seems to be an important issue neglected by most studies.
This review suggests several future research directions. First, the concept of customer co-production itself needs further investigation and integration. This concept takes too many forms and too many meanings and it is difficult to identify what the authors mean unless one looks at the ways in which the concept is operationalized and measured. Second, it seems that there is general consensus that higher levels of customer participation lead to better outcomes. However, there seem to be some warning signs. Future studies should attempt to identify the nature of the effects of different forms of participating behaviors under the moderating effect of different contextual conditions. Third, the review underscores the central role played by customer socialization, which encompasses activities to educate and train the customers for the roles that they have to play in the service production process. These are the main mechanisms for managing customer expectations and motivation or “desire” to have a certain level of participation. More research is needed to determine the best ways in which to conceptualize and measure the effectiveness of customer socialization to the service. Finally, the review underscores the fact that customers’ characteristics play an important role in their desire to co-produce the service. Since individual differences cannot be directly managed, future research should focus on customer segmentation and the implications of serving multiple customer segments with different needs and desires for participation. On a broader level, this review suggests the value and the further need to integrate other bodies of literature. References available upon request.

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THE EFFECT OF CUSTOMER EMOTION ON INDIVIDUAL FRONTLINE
EMPLOYEE AND WORKGROUP AFFECT, BEHAVIOR, AND OUTCOMES

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ABSTRACT

Previous research has investigated the effect of frontline employee positive affect on customer service evaluations and outcomes, but there is a lack of research on how customer emotions impact frontline employees. The author proposes a model of individual and group-level effects in which positive customer emotional stimuli influence employee affect and behavior and result in higher satisfaction levels for other customers.

INTRODUCTION

Emotions play a pivotal role in a customer’s evaluation of a service encounter and the overall consumption experience (Mattila and Enz 2002). Employee behavior influences how a customer feels during a service encounter and how the customer feels about the service provided and the organization. An employee’s display of positive emotion produces positive customer affect and a more positive evaluation of service quality (Pugh 2001). Service quality affects customer satisfaction, and enhanced satisfaction may lead to repeat purchase behavior, positive word-of-mouth communications (Bitner 1990) and ultimately to increased firm profitability.

Although the literature demonstrates that the frontline employee (FLE) can impact customer affect, with positive consequences for the firm, little attention has been given to the effect of customer affect on the individual frontline service employee or workgroup. Mattila and Enz (2002) cite recent research that customers exposed to employee emotional displays experience corresponding changes in their affective states, and note that “it is equally plausible that the effect could be reciprocal” (p. 274).

This paper addresses the unexplored effect of customer emotional displays on employee and workgroup mood, behavior and outcomes. It is important to consider how customer emotions affect employees because the service value sought by customers is created by service employees who are satisfied, loyal and productive (Heskett et al. 1994). From the theoretical and managerial perspective, it is useful to examine influences, such as customer emotional display, that can affect employee satisfaction and behavior, have the potential to raise or lower the level of service quality delivered to other customers, and indirectly impact customer loyalty and firm profitability. This paper proposes a feedback loop wherein positive or negative emotional displays by customers influence employee and workgroup mood and pro-social behavior in ways that affect the satisfaction of other customers. By being aware of how customer stimulated emotions impact the workplace and service delivery, managers can take steps to facilitate the flow of positive emotions and diminish the effect of negative emotions. The model shown in Figure 1 serves as the framework for this conceptual study.

THE ROLE OF AFFECT IN SERVICE ENCOUNTERS

Affect is gaining greater attention as an important element in understanding how consumers evaluate consumption experiences (Oliver 1997). Affect is a broad term that is sometimes used interchangeably with emotion, but to better understand the feelings-laden processes at work in the customer-employee interaction it is useful to carefully define affect and distinguish its various forms. There are three basic types of affective experiences: dispositional affect, emotions and moods. Dispositional affect is a long-term, stable trait such as positive and negative affectivity. Dispositional affect may influence the display of emotion by either party in a service encounter, but will not itself be subject to change.

The other two affective experiences are more fluid, and greatly influenced by context. Emotions are intense, relatively short-term affective reactions to a specific environmental stimulus (Reber 1985). Emotions are discrete (e.g., anger, joy, shame, pride) and are directed at specific target objects or events. In contrast, moods are weaker, more diffuse affective reactions to general environmental stimuli, leading to relatively short-term, unstable changes within the individual (Tellegen 1985). Moods can come and go depending on the prevailing conditions. Because the setting of interest in this study is the service encounter (which is frequently brief and impersonal), the affective experience of initial interest is emotion, since it involves an intense reaction to a target object or experience. The later discussion of affect in the workplace and workgroups will consider moods.

Mattila and Enz (2002) have demonstrated that customers’ displayed emotions during the service encounter will be positively associated with their evaluation of the
service encounter and the overall assessment of the firm. They reason that the affective state of the customer is communicated to the frontline employee via nonverbal cues (i.e., facial expressions, bodily gestures, vocal tone, and language), and that emotions information suggests how the customer will ultimately evaluate the service encounter.

Pugh (2001) goes a step further and demonstrates that frontline personnel can change the affective state of the customer and their perception of service quality through the process of emotional contagion. Specifically, his research supports the hypotheses that (1) the display of positive emotion by employees is positively related to customers’ positive affect, and (2) customer positive affect will be positively associated with evaluations of service quality. Pugh (2001) uses the emotional contagion process to explain how employee displayed emotions affect customers’ emotions.

The actual mechanisms of emotional contagion are (1) subconscious, automatic, “primitive emotional contagion” (Hatfield, Cacioppo, and Rapson 1992) and (2) other, more conscious emotional comparison processes. As an example, exposure to a picture of a person smiling or frowning can produce similar effects in the viewer’s facial expressions and congruent changes in physiology and felt emotion (McHugo et al. 1985).

Evidence of the impact of employee affect on customer affect suggests the strong possibility that the emotion contagion process can also work effectively in the opposite direction. Strong customer emotion (positive or negative) can produce similar emotions in the frontline employee through automatic, subconscious mimicry and physiological response. A positive emotions example is the customer service experience of customer “delight.” The research of Bitner (1990) shows that unprompted and unsolicited employee actions are positively related to customer satisfaction (i.e., meeting or exceeding customer expectations). The conceptual work of Rust and Oliver (2000) suggests that the extreme customer response of “delight” can be achieved by extraordinarily high levels of performance by the firm or its service personnel. A customer may feel and visibly express delight when told by the airline desk personnel that his or her seat is being upgraded from coach to first class for a cross country flight because the coach section is overbooked. The nonverbal and verbal expressions of the customer may well produce a similar positive affect in the airline desk employee through the process of emotional contagion.
Pugh (2001) admits in the discussion section of his article that his research design did not eliminate the possibility that customer-displayed emotion could affect employee-displayed emotion. He says that “in future research this issue could be better addressed by measuring employee- and customer-displayed emotion and employing experimental designs that manipulate employee and/or customer emotional displays” (p. 1026).

In spite of Pugh’s (2001) uncertainty over the impact of customer affect on employee affect, this study does propose that especially in extreme cases of customer emotion (delight), and even for more subtle expressions of emotion, customer displayed emotions can influence frontline employee emotions through the mechanism of emotional contagion.

**Proposition 1:** The display of positive emotion by customers is positively related to employees’ positive felt emotions through the process of emotional contagion.

Similarly, a negative emotional display by an upset customer can increase an employee’s negative feelings. The conceptual question now under consideration is what are the effects of customer affect on front line employee mood, job satisfaction, behavior and outcomes, and workgroup mood, behaviors and performance outcomes?

**THE IMPACT OF CUSTOMER AFFECT ON FRONTLINE EMPLOYEE AFFECT, PERFORMANCE, AND OUTCOMES**

Given that an emotional display of “customer delight” can create similar positive emotional feelings in the frontline employee, what then is the impact of that felt emotion on the employee?

Weiss and Cropanzano’s (1996) Affective Events Theory (AET) is particularly useful as a framework to study the impact of customer-induced employee emotions. AET offers a way to understand the effect of single and multiple customer-employee affective interactions on employee work attitudes, behaviors and outcomes. Specifically, Weiss and Cropanzano (1996) examine the relationship between affective states, job satisfaction and job performance. The impact on job satisfaction is relevant because job satisfaction influences external service value (Heskett et al. 1994).

AET assumes that (1) job satisfaction is an evaluative judgment made by the employee about their job, (2) the evaluation is influenced, in part, by affective experiences, and (3) job satisfaction is not a feeling, and as an evaluation it is a different construct from affect. Also, the theory focuses on events, not the environment, as causes of emotions and moods. Events directly influence behaviors and attitudes, whereas the environment (i.e., a stable context) makes affective events more or less likely to happen.

The theory quite realistically posits that events should not be considered in isolation, but instead, as a series of events that taken together have an effect on employee attitude and behavior. Weiss and Cropanzano (1996) contend that emotional experiences are better characterized as emotional episodes rather than as a discrete reaction to a specific event. The authors cite Frijda (1993) as the source for the observation that people normally describe an emotional experience as a series of events organized around a unifying theme. A single event can produce an emotional reaction, and then lead to a series of subevents, each having an emotional impact. The overall series of events centers around a core relational theme, and throughout the episode the individual has a heightened level of emotional arousal and attention.

It seems likely that a series of mostly positive customer interactions will turn a series of discrete positive emotional reactions into an overall positive employee mood. Especially if there are one or more customer “delight” experiences in the series of interactions, the mostly positive events will create a positive mood in the frontline employee. This contention is supported by Weiss and Cropanzano’s (1996) suggestion that an emotion turns into a mood when an individual loses focus on the causal event or object, due to the cause-effect disconnect for moods (i.e., individuals generally are not keenly aware of the cause of moods).

**Consequences of Moods**

The consequences of mood, as identified by AET, are very specific: mood (1) predicts satisfaction, (2) directly impacts affect-driven behaviors, and (3) indirectly affects other behaviors through satisfaction.

The theory asserts that job satisfaction is not an affective or emotional reaction to a job, but instead is an evaluative judgment of a person’s job or job situation. The evaluative judgment depends on emotional experiences at work and beliefs about the job. Job satisfaction has both affective and cognitive components. The affective component assesses the feelings and emotional experiences associated with the job, while the cognitive component...
considered beliefs about the job (Weiss and Cropanzano
1996). AET treats job satisfaction and affect as separate constructs with overlapping antecedents and outcomes. More importantly, affect and cognition have separate and independent impacts on job satisfaction. In the research of Weiss, Nicholas, and Daus (1999), overall satisfaction was regressed on mood and beliefs, and the data showed that both constructs independently and significantly influenced job satisfaction.

Weiss and Cropanzano (1996) reason, based on the empirical evidence, that mood predicts satisfaction, and specifically, that average mood over a given time period predicts satisfaction because mood is a measure of “the frequency and/or intensity of affective events” (p. 48). Mood affects satisfaction by coloring the interpretation of events, by increasing or decreasing the likelihood of recall of affective experience, or by actually causing behaviors (e.g., arguments) to be evaluated in the job satisfaction judgment.

The frontline employee experiences an average mood state over the course of hours or days and an exogenous shock, (such as emotional feedback from a customer’s “delight”) or simply experiencing an extended series of pleasant customer interactions can make the employee’s mood state much more positive. Since mood is a rough indicator of how frequently and how intensely affective events (positive or negative) have occurred, and affective experiences are one of the two independent components in the job satisfaction evaluation, it is likely that a more positive mood is associated with greater job satisfaction. Mood influences the short-term affective evaluation of one’s job.

Proposition 3: Frontline employee, customer interaction induced mood is positively related to frontline employee job satisfaction.

In assessing the behavioral consequences of affect, Weiss and Cropanzano (1996) distinguish between affect-driven and attitude-driven behaviors. Affect-driven behaviors are directly influenced by affective states without the mediation of satisfaction judgments. Mood has a direct effect on helping behaviors, information processing strategies and probability judgments. Affect levels change over time, therefore the behaviors they influence do not last long and behavior driven by affect can vary greatly over a given time period. In contrast, attitude-driven behaviors are directly influenced by job satisfaction; examples of those types of job behaviors are primarily negative: employee lateness, absenteeism, turnover, and retirement.

Since this study focuses on the effects of employee mood, we will examine only affect-driven behaviors. Organizational research has found that people in a positive mood are more generous, helpful, cooperative, feel greater liking for others, and evaluate others more favorably than individuals in a neutral mood (Isen and Baron 1991). George (1991) provided empirical evidence that employees’ positive mood increases customer-directed helping behavior, and that behavior is positively associated with sales performance. She found that positive mood as a state increases prosocial behavior, but positive affectivity (the personality trait) does not. Sales personnel who experienced positive moods at work were more likely to be helpful to customers, regardless of whether the behavior was part of their job (customer service) or whether it was more than required by the job (altruism). Benefits to the organization were shown in the statistically significant positive relationship between customer service behavior and sales.

The conceptual framework of Weiss and Cropanzano (1996) and the empirical work of George (1991) provide strong support for the proposed relationship that an employee’s positive mood state (resulting from one or more very positive customer interactions) increases that employee’s role specific and extrarole (altruistic) helping behaviors directed toward the customer. In addition, those behaviors will increase customer satisfaction due to customer’s more favorable assessments of service quality. In effect, the initial display of customer “delight” ripples through the affect chain to eventually produce increased satisfaction for other customers. Since the affect-prosocial behavior relationship is well-supported in the literature, it is not presented as a proposition in this paper. George (1991) demonstrated the relationship between affect and service quality, but not a link between prosocial behavior and customer satisfaction. Therefore, to complete the linkages for the customer satisfaction feedback effect, the following relationship is proposed.

Proposition 4: Frontline employee helping behaviors directed toward the customer are positively related to customer satisfaction.

THE IMPACT OF CUSTOMER AFFECT ON WORKGROUP AFFECT, BEHAVIOR, AND OUTCOMES

Customer-initiated, positive affect in the employee can impact the frontline workgroup by (1) a transfer of employee felt emotion to displayed emotion, then (2) a subtle improvement in workgroup mood through emotional contagion, (3) resulting in increased customer-directed prosocial behavior by team members and (4) greater satisfaction experienced by other customers.

An employee can influence the mood of other team members only if the affect he or she feels is displayed in some way. Researchers distinguish between “felt” and “displayed” emotions, in that what an individual feels
may not always be behaviorally displayed through facial expressions, speech, physical movements and gestures. Display of emotion may be influenced by social/organizational regulations and norms, with limits set on the range of expressiveness in a given setting (Arvey et al. 1998). Accordingly, after an encounter of customer “delight,” the frontline employee will continue to display positive emotion and mood in the presence of other work team members, at a level of intensity allowed by the setting and organizational norms. And the employee will also display felt, negative emotion after encounters with extremely dissatisfied customers.

Proposition 5: Organizational context moderates the relationship of frontline employee felt emotions to frontline employee displayed emotions.

Through emotional contagion, the emotion and mood communicated by the individual employee can infect others and subtly change the overall workgroup mood. Barsade (2002) demonstrated through a laboratory study that moods do transfer among people in a group and influence workgroup dynamics. The experiment results supported hypotheses that (1) contagion of mood occurs among group members, (2) positive emotional contagion (i.e., increase in positive mood) will lead to greater cooperativeness and less group conflict. Individual disposition, authority level within the group, group cohesiveness and physical proximity of workgroup members may affect the likelihood of a sender transferring an emotion or mood to one or more receivers. Empirical evidence supports the contention that in a typical workgroup an excited team member can positively affect the mood of the workgroup.

Proposition 6: Frontline employee display of positive emotion will improve workgroup mood through the process of emotional contagion.

Prior to Barsade’s work on group mood change, George (1990) established that there is such a thing as group mood or affective tone, and that group affect has specific behavioral outcomes. George (1990) found evidence that the affective disposition of individuals in a group, taken together, influences the nature of the group itself. She defines affective tone as “consistent or homogenous affective reactions within a group” (p. 108), and uses Schneider’s (1987) attraction-selection-attrition framework (ASA) as theoretical justification for expecting consistent affect and behavior within groups. According to ASA theory, work organizations attract, select and retain people with similar personalities. George (1990) reasons that group members with similar affective dispositions and a common group socialization experience will feel and react to emotional stimuli in a similar way. Her study provided support for the hypotheses that (1) individual affect is consistent within workgroups, and (2) the affective tone of a workgroup is positively related to the extent which the group engages in prosocial behavior.

It follows from the research of George (1990) and Barsade (2002) that when there is an increase in a frontline workgroup’s positive mood (brought about indirectly by one or more experiences of customer “delight”), there may be an increase in prosocial behaviors directed at customers, at least as long as the positive mood lasts.

Proposition 7: Frontline workgroup mood is positively related to customer-directed prosocial workgroup behavior.

In a study of groups in a national retail organization, George and Bettenhausen (1990) demonstrated the relationship of group prosocial behavior directed at the customer (i.e., customer service) to group sales performance. Prosocial behavior and sales performance were significantly and positively correlated. Clearly, customer satisfaction is a mediator between group behavior and sales results, so the model proposed for this study links workgroup prosocial behavior to customer satisfaction. The same prosocial behavior-customer satisfaction relationships discussed in the individual level of analysis are at work in this group level of analysis.

Proposition 8: Frontline workgroup prosocial behavior directed at the customer is positively related to customer satisfaction.

CONCLUSION

This conceptual study of the impact of customer “delight” on individual and workgroup frontline employees shows that positive customer experiences can improve worker affect and cycle back to enhance the satisfaction of other customers. In effect, there is a feedback loop of customer satisfaction and emotional transfer that enhances service delivery through increased customer-directed prosocial behavior. Improved service delivery leads to more favorable evaluation of service, greater customer satisfaction, customer loyalty, revenue and profitability. The model and literature also suggest that emotionally negative customer-employee interactions can influence employee mood and job satisfaction, and increase occurrence of negative attitude-driven behaviors such as employee lateness, absenteeism and turnover.

What does all this mean for management? Positive emotional stimuli from satisfying customers can improve the service workplace environment if employees are encouraged to express their positive emotions and share their customer interaction “successes” with other workgroup members. Loosening organizational restraints on the display of positive employee emotions would facilitate the movement of positive stimuli through the
“affect chain” and improve service delivery and customer assessments.

Just as importantly, management should realize the potentially damaging effects of customer negative emotional displays on frontline employees and workgroups. Thorough training on how to deal with disgruntled, unruly customers may help the employee cope with their own emotional upset, lessen the impact on job satisfaction and service delivery, and minimize workplace withdrawal behavior.

Future research on this topic should empirically test the relationships of the proposed model, perhaps starting with a field study of individual-level linkages (i.e., employee self-report of mood and supervisor report on extent of employee helping behaviors matched with customer satisfaction survey responses). Among the interesting future research questions are: How are the process and consequences of workgroup emotional contagion different from the proposed model when employees work together in an open area and can directly observe customer interactions of other team members (e.g., fast foods service counter vs. pizza delivery driver)? What factors enhance or minimize workgroup emotional contagion in the services marketing environment (e.g., workgroup cohesion, employee personality differences)?

A fuller understanding of the antecedents and consequences of affect in an organizational and consumer environment will benefit marketing managers as they operate in an increasingly services-oriented economy.

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VALUE-CREATING AND VALUE-CLAIMING NORMS: AN EMPIRICAL TEST OF THEIR IMPACT ON CUSTOMER COMMITMENT

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SUMMARY

Despite growing interest in the role of norms for the governance of business relationships, their use in empirical studies remains selective and fragmentary. Based on a survey among purchasing managers, the present article explores the importance of two types of norms, i.e., norms which help create value in a relationship and norms which help control value-claiming behaviors (Kaufmann 1987). In particular, we assess their impact on commitment in the presence of specific investments made by the supplier. We test the following hypotheses.

H1: Value-creating norms have a positive impact on customers’ commitment.

H2: Value-claiming norms have a negative impact on customers’ commitment.

H3: In the presence of specific investments, value-claiming norms have a positive impact on customers’ commitment.

Empirical Study

The study is based on a written survey among managers involved in professional purchasing processes in the market research sector. It represents an industrial service market where long-term relationships play an important role. The available number of questionnaires is 206 (net return rate = 29.4%). Respondents have been responsible for the relationship for at least two years. The participating customer companies cover all three major industry sectors (industry, retail, and services). The sample consists of SMEs as well as large companies. All relevant constructs were operationalized based upon measurement instruments documented in the extant literature (e.g., Heide 1994; Kaufmann and Dant 1992). Scales which had initially been developed for alternative research settings (e.g., channel relationships) were reformulated to fit the market research industry selected for this study. In order to test the questionnaire’s usability, all scales were intensively discussed in a pre-test phase and, when necessary, modified in interviews with both buyers as well as sellers from the market research industry. This process led to the final questionnaire which was pre-tested again with a different set of buyers and sellers. Scale reliability was assessed based on t-values, factor reliability, and average variance extracted. Discriminant validity was checked using the procedure described by Fornell and Larcker (1981).

To test our hypotheses, we employed Partial Least Squares (PLS) analysis (Wold 1982; Chin 1998). Figure 1 summarizes the parameter estimates. All hypotheses are confirmed at the 5 percent level. Value-creating norms display a positive impact on commitment. Value-claiming norms are negatively correlated with commitment. Suppliers’ specific investments are shown not to have any direct impact on customers’ commitment. However, there is a positive interaction term between specific investments and value-claiming norms.

Discussion

From a managerial point of view, suppliers may use our findings to strengthen their customers’ commitment through the management of relationship norms. With respect to value-creating norms, our research findings are straightforward. Strengthening relationship norms that help create value clearly has a positive impact on customer commitment. The case is more complex for value-claiming norms. Though they have a negative direct impact on customer commitment, they are not always damaging. Their total impact depends on the level of specific investments. If the supplier has adapted his resources and processes to his customers’ specific needs, value-claiming norms may actually increase customer commitment. For example, if the specific investment is one standard deviation above average, the total effect of value claiming norms on customer commitment is positive (-0.182 + 0.428 = 0.246). Figure 2 illustrates the interaction between specific investments, value claiming, and customer commitment.

Interestingly, specific investments do not directly impact customer commitment. With a standardized path coefficient of 0.08, there is no significant effect. Therefore, supplier’s specific investments will only increase customer commitment if the relationship is characterized by strong value claiming norms. References available upon request.
FIGURE 1

FIGURE 2

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GOOD BYE, DARLING: A REAL OPTIONS APPROACH TOWARDS RELATIONSHIP TERMINATION

Ellen Roemer, University of Bradford, United Kingdom

ABSTRACT

The aim of this paper is to offer a real options approach towards the dissolution of inter-firm relationships. It provides a new theoretical basis for analyzing the antecedents of relationship termination thus extending the extant literature. Specifically, the author proposes (1) that the real option to terminate a relationship may become valuable for relationship partners, (2) testable propositions determining the association between antecedents and the value of the abandonment option from the real options framework, (3) new variables having an impact on relationship termination.

INTRODUCTION

The analysis of inter-firm relationships has become an important issue in marketing theory and practice over the past decades. Business marketing literature in particular investigated the development and maintenance of long-term relationships (e.g., Narayandas and Rangan 2004). Nevertheless, relationships are not never-ending stories. They are rather perceived to follow life cycles with “dissolution” as the final stage of a development process (Dwyer, Schurr, and Oh 1987). Therefore relationship researchers have increasingly paid attention to the termination of inter-firm relationships (e.g., Ping and Dwyer 1992; Ping 1999; Giller and Matear 2001). They have started applying and developing different frameworks to explore antecedents of relationship termination as well as the process of relationship dissolution.

The literature uses a variety of theoretical perspectives for analyzing antecedents of relationship termination. Researchers applied frameworks from various academic disciplines such as social psychology or economics. However, the frameworks used within each discipline are more or less the same. For example, Hirshman’s (1970) exit, voice, loyalty framework frequently served as a theoretical foundation within the economic category of approaches. Due to the limited theoretical foundation, it has to be suspected that the current literature ignores important antecedents of relationship termination that have not been recognized so far. In particular, it disregards the impact of environmental uncertainty on relationship termination. Although, researchers widely acknowledge the significant influence of environmental uncertainty on relationships (e.g., Buvik and John 2000), it is literally ignored in relationship termination investigations. Therefore, it has to be doubted that the current approaches can appropriately grasp the entire relationship termination problem.

In this paper, the real options approach is used to overcome the limitations of the present research. A real options approach to relationship termination has the following advantages over the frameworks currently in use. First, real options analysis explicitly includes environmental uncertainty as an antecedent to the value of relationship termination. Moreover, it integrates the “time to terminate a relationship” as a further antecedent to relationship termination. The paper therefore improves the explanatory power of relationship termination theory. Second, the approach integrates factors from other frameworks. It thus provides a general platform for a relationship termination theory. Third, real options analysis has been proven a powerful management tool for decision-making on investments under uncertainty. Therefore, it can be considered as highly appropriate for exit decisions in inter-firm relationships.

The objective of this paper is to analyze relationship termination from a real options perspective as an economic approach towards relationship termination. In particular, a simple abandonment option is used to derive testable propositions delimiting the association between antecedents of relationship termination and the value of the option to abandon a relationship partner. The option value in turn determines whether and when relationship termination becomes likely.

The remainder of this paper is organized as follows. The next section reviews the extant relationship termination literature. Subsequently, a brief summary of the characteristics of a real abandonment option is provided. In the fourth section, propositions for the association between antecedents and the value of the option to terminate the relationship are derived and compared with findings from the extant literature. The final sections discuss managerial implications as well as limitations and extensions.

RELATIONSHIP TERMINATION LITERATURE

To analyze the abandonment decision in relationships, different theoretical perspectives have been applied to identify the factors influencing the abandonment. From a social psychology perspective, Johnson (1982) identified structural commitments that constrain relation-
ship dissolution. He discussed four types of commitments such as irretrievable investment, social pressures, alternative attractiveness, and termination procedures. Building on Hirshman’s (1970) exit, voice, and loyalty framework and Johnson’s (1982) structural constraints, Ping (1993) developed a multi-paradigmatic model of exit in marketing channels. He conceived satisfaction with the relationship, alternative attractiveness, investment in the relationship and switching costs as antecedents of general responses to relationship problems such as exit, voice, loyalty, opportunism and neglect (also Ping 1999). By conducting an empirical study in the retail industry and using structural equation modeling, he found that exit becomes more likely with satisfaction decreasing and with alternative attractiveness increasing.

Similarly, Stewart (1998) used Hirshman’s (1970) exit, voice, and loyalty framework to analyze four key issues to customer exit. She proposed that the customer’s perception of quality decline, the availability of alternatives, exit barriers as well as alternative responses such as “voice” have an impact on customer exit. For industrial marketing situations, she emphasized the importance of exit and switching costs, which include search, transaction and learning costs, emotional costs, cognitive efforts, financial, social and psychological risks.

Within services marketing, Hocutt (1998) used social exchange theory along with investment theory, social psychology, and marketing literature to develop a relationship dissolution model. In this model, she conceived relationship dissolution as being negatively related to relationship commitment. Relationship commitment thus lessens the likelihood of the dissolution of a relationship. She identified “satisfaction with service provider,” “trust,” “social bonds,” “quality of alternatives,” “relative dependence,” investment in relationship,” “closeness,” and “duration” as key drivers to relationship commitment which in turn has a negative impact on the “likelihood of relationship dissolution.” Giller and Matear (2001) extended Hocutt’s model by linking her model with different strategies of relationship termination.

From the IMP Group’s perspective Halinen and Tähtinen (2002) developed a process model of relationship dissolution in the professional services industry. They associated different types of relationships with different types of ending the relationship. In addition, they identified different factors influencing the relationship ending process. They distinguished between predisposing factors (e.g., the number of alternative partners), precipitating events (e.g., changes in personnel, and attenuating factors and events (e.g., strength of commitment).

This literature review shows that the theoretical foundation of relationship termination is heterogeneous. Although heterogeneous, most approaches rely on just a few theories such as Hirshman’s exit, voice, loyalty framework, social-exchange theory, or investment theory. Therefore, it has to be suspected that the current approaches can appropriately capture the whole relationship termination problem.

To extend the analysis of relationship termination, the real options theory is suggested as an approach towards relationship termination. This approach adds factors such as “environmental uncertainty” and “time to terminate a relationship” having an impact on relationship termination that have been disregarded so far. Moreover, it is able to condense the factors of relationship termination discussed in the extant literature to a few economic parameters thus providing a general theoretical basis of relationship termination.

THE REAL ABANDONMENT OPTION

A real options approach towards relationship exit belongs to the economic category of termination approaches. Economic approaches are especially appropriate for analyzing buyer-seller relationships because of the high value of transactions between organizational buyers and sellers. Parties in relationships thus need to make rational exit decisions that are built on economic criteria.

Real options analysis has become an important method of assessing investment projects under uncertainty over the last two decades (e.g., Dixit and Pindyck 1994). Since financial options show analogies to real world investment options (real options), financial option pricing methods have been applied to assess the value of investment projects’ flexibility. A real option is the right, but not the obligation, to buy or sell a real asset at a predetermined cost on or before some fixed date. Therefore, real options allow investors to add value if they remain flexible.

Since buyer-seller relationships frequently require up-front as well as follow-up investments, a relationship can be viewed as an investment project including different real options. A flexible seller in a relationship may for example consider real options to defer an investment in the relationship, to expand or to contract the relationship, or to exit an existing relationship and switch relationship partners. In financial terms these options are technically call and/or put options, with a call option including the right to buy an asset, whereas a put option is the right to sell an asset at a predetermined price.

To analyze the value of an option to exit from an existing relationship (abandonment option) an American put option can be used. Derived from the seminal Black and Scholes (1973) formula, the value of a put option ($P$) is given by
In this formula, \( S \) is the current cash flow from an existing relationship partner. \( X \) is the exercise price of the put option and \( \alpha \) is the volatility in the value of the current relationship partner, which is usually caused by environmental uncertainty. \( T \) is the time to maturity, i.e., the period of time during which the option can be exercised. \( r \) is the risk-free interest rate. These parameters have different impacts on the value of an option. The effects on American put option values can be summarized as follows (Hull 1998, p. 195).

Table 1 can be interpreted as follows. Increasing prices \( S \) of the underlying asset reduce the value of the abandonment option (value of an American put), while a growing exercise price of the put option \( (X) \) has a positive influence on the option value.

Subsequently, the value of the abandonment option is interpreted as the value of an option to terminate the relationship with a specific partner. The option value determines in turn whether and when exit from a relationship becomes likely. The parameters affecting the value of the real option to abandon a relationship are discussed in detail.

**RELATIONSHIP TERMINATION AS A REAL ABANDONMENT OPTION**

**Value of the Underlying Asset – Value of the Current Relationship**

When modeling the value of an American put option as a real option to abandon a relationship partner, the value of the underlying asset is one important variable having an impact on the put option value. The value of the underlying asset is for example the price of a stock that can be bought (call option) or sold (put option). Transferred to the abandonment of buyer-seller relationships, the value of the underlying asset may be represented by the current cash flows from the partner to be abandoned. When a relationship partner exercises the option to exit from a relationship, (s)he sells the “asset” the option is written on, i.e., (s)he abandons the value from the current relationship partner. The negative cause-effect relationship (Table 1) implies that the more valuable the current relationship, i.e., the higher the cash flows from the incumbent partner, the less valuable will be the option to exit from the relationship. Hence, the following proposition can be formulated:

\[ P_1: \text{The higher the value from the current relationship partner, the lower the value of the option to terminate the respective relationship.} \]

This is consistent with Hirshman (1970) and Stewart (1998) who suggested that exit becomes most likely when quality of products and services declines. Similarly, Ping (1993, 1999) proposes that satisfaction is negatively associated with exit. When the decline in quality – that equally results in a decline in satisfaction – is expressed in monetary terms, it can be interpreted a decline in cash flows. From a customer’s point of view, the customer would have to demand a lower price on the market if the supplier delivered a minor quality of ingredients. In this case, cash flows decline as quality of delivered products deteriorates. Similarly, from the supplier’s perspective, if the customer’s product quality declines demand on end-consumer markets will decrease. Then cash flows from the respective customer will decline as well. Consequently, when quality is interpreted in terms of cash flows, the value to terminate the relationship increases with a decline in quality/cash flows or, conversely, the value to abandon a relationship decreases with quality/cash flows increasing.

**Exercise Price – Value of Alternatives/Switching Costs**

The exercise price is the money that the owner of the option will receive when (s)he converts the put option. As the exercise price of an American put option increases, the

| TABLE 1  
Value Drivers of an American Put Option |
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<td><strong>Input parameters</strong></td>
<td><strong>Value of American Put</strong></td>
</tr>
<tr>
<td>Price of the underlying asset ((S))</td>
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<td>Exercise Price ((X))</td>
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<td>Volatility ((\alpha))</td>
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<td>Time to maturity ((T))</td>
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value of the real option to sell an asset grows as well (Table 1). Translated to relationship marketing: When a firm intends to terminate a relationship with a partner, the exercise price is the money that the firm will receive in return for leaving the relationship. For example, the exercise price can be interpreted as the value of a new, alternative relationship partner whose cash flows are received when exiting and switching to this new partner. Therefore, following proposition is forwarded:

\[ P_{2a}: \text{The higher the value of alternative relationship partners, the higher the value of the option to terminate the respective relationship.} \]

The relationship termination literature argues in a similar way. Johnson (1982) as well as Ping (1993, 1999) explicitly included “alternative attractiveness” in their frameworks. They suggested that alternative attractiveness is positively associated with relationship exit. Alternative attractiveness relates to the value or the cash flows from alternative partners in a real options framework. Hocutt (1998) and Giller and Matear (2001) considered the “quality of alternatives” as a variable being negatively related to “commitment to the relationship,” which is in turn negatively related to the “likelihood of dissolving the relationship.” In sum, the likelihood of dissolving a relationship increases with the “quality of alternatives” or the value of alternatives increasing.5 Similarly, Stewart (1998) referred to the “availability of alternatives.” In contrast to other contributions, she disregarded the quality or value of alternatives.

However, when a relationship partner exits and switches to a new relationship, (s)he will usually have to incur switching costs (Jackson 1985; Weiss and Anderson 1992; Wathne, Biong, and Heide 2001). To exit a current relationship, a partner may have to incur transaction costs (Stewart 1998), contractual costs, costs of negative feedback (Weiss and Anderson 1992), and the loss of specific assets (Wathne, Biong, and Heide 2001). Moreover, switching costs include costs to enter a new relationship. A partner may incur transaction costs such as search and evaluation costs (Stewart 1998; Wathne, Biong, and Heide 2001). In addition, the partners may have to invest in the new relationship. These investments may include investments into lasting physical assets, human assets and/or business procedures (Jackson 1985).

Switching costs reduce the exercise price of the abandonment option (the value from an alternative relationship partner) and thus have a negative impact on the value of the abandonment option. Consequently, it is proposed:

\[ P_{2b}: \text{The higher switching costs, the lower the value of the option to terminate the respective relationship.} \]

The literature supports this proposition. Johnson (1982) and Ping (1993, 1999) argued that switching costs and relationship investment are negatively related with relationship exit. Hocutt (1998) and Giller and Matear (2001) conceived the investment in a relationship as being positively related to “commitment to the relationship,” which is in turn negatively associated with the “likelihood of dissolving the relationship.” Their arguments corroborate the negative association between switching costs and the abandonment option in relationships, since it can be assumed that the higher the value of the abandonment option, the more likely the exit from the relationship. Stewart (1998) explicitly analyzed switching costs as exit barriers in relationships thus making relationship termination costly. She considered switching costs such as search, transaction, learning costs, customer habit, and emotional costs, financial, social, and psychological risks. Her analysis also suggested that switching costs are negatively related to the likelihood of relationship termination.

Volatility – Environmental Uncertainty

Volatility of the underlying asset’s price is another key variable in real options analysis influencing the value of options. Volatility in the underlying asset is usually caused by environmental uncertainty such as fluctuations in demand on end-consumer markets, technological change, or fluctuations of input prices on world markets. Increasing volatility or uncertainty in the underlying asset has a positive effect on the value of put options. The higher the volatility in the underlying asset, the more valuable the option becomes to sell the asset. In terms of relationship termination: The more volatile the value of the current relationship partner, the more valuable the real option to abandon the partner. The reason is quite intuitive: Higher volatility provides a higher downward potential of the underlying asset’s value. If the owner of a put receives an exercise price for the asset, the downside risk is limited.

An example may clarify why higher volatility has a positive impact on the option to terminate a relationship. In dynamic markets, demand for technological innovations is usually highly volatile. Producers of a new technology such as Radio Frequency Identification (RFID) tags are uncertain about the demand for the tags, uncertain whether the innovation will be adopted by customer and whether the supplied technology will become the standard throughout the industry. In such uncertain markets, it is valuable for the suppliers of RFID tags to maintain the option to terminate relationships at low cost with customers if demand for RFID tags deteriorates. The more volatile the demand for RFID tags, the more valuable the exit option for the supplier when there is an exercise price (e.g., production facilities can be resold, low cancellation
fees with customers). Consequently, the more uncertain the environment affecting the current relationship partner’s cash flows, the more valuable becomes the option to abandon this partner. Thus it can be formulated:

P₁: The higher environmental uncertainty affecting the current relationship partner’s value, the higher the value of the option to terminate the respective relationship.

The review of the extant relationship termination literature reveals that environmental uncertainty has so far played a minor role in explaining relationship dissolution. One reason may be that the original frameworks such as Hirshman’s exit, voice, and loyalty framework or social-exchange theory neglect environmental uncertainty. Therefore, environmental uncertainty affecting relationships needs further theoretical and empirical consideration in relationship termination literature.

Time to Maturity – Time to Terminate a Relationship

The time to maturity, i.e., the period of time in which options can be exercised, is positively associated with the value of a put option. The more time will be available in the future to dissolve a relationship, the more valuable becomes the option to abandon the relationship partner. The positive association between “time to maturity” and put option value can be explained as follows: The more time is available to exercise the option to abandon the relationship partner, the longer the evolution of the uncertain partner’s cash flows can be observed and the higher the downside potential of the partner’s cash flows. A longer the time to maturity also offers a longer time during which new opportunities may appear (e.g., access to new markets). If the time to maturity is very short, the partner’s uncertain cash flow has a smaller downside potential, which makes the abandonment option less valuable. Consequently, it is suggested for relationships that:

P₂: The more time is available to terminate the relationship, the higher the value of the option to terminate the respective relationship.

Similarly, Hocutt (1998) and Giller and Matear (2001) considered a time dimension in their relationship termination framework. They posit that relationship duration is positively related to “commitment to the relationship,” which is in turn negatively associated with the “likelihood of dissolving the relationship.” Taken together, they saw the duration of a relationship as being negatively related to relationship exit. This may be interpreted as a contradiction to the above-mentioned proposition P₂. However, here the time that is left in the future to terminate the relationship is considered, whereas Hocutt (1998) and Giller and Matear (2001) focused on the past time of relationship duration. In the present framework, the past duration of the relationship could be interpreted as increasing switching costs which lower the exercise price and thereby the value of the abandonment option. This is again consistent with the literature. Consequently, it can be proposed that the time to terminate a relationship needs further consideration in relationship termination research as well.

Risk-Free Interest Rate

Finally, real options analysis uses the risk-free interest rate to discount a relationship partner’s future cash flows. When interest rates are varied in real options calculations, however, the response of the value of the option is only of minor significance in comparison to the other variables. Therefore, it can be concluded that the interest rate has a minor relative impact on the total value of the option and therefore is disregarded in the present analysis.

MANAGEMENT IMPLICATIONS

A real options approach towards relationship termination raises some issues that have implications for marketing practice. Nevertheless, it should be emphasized that these implications are preliminary in nature since there is a lack of empirical evidence at this point of time.

The offered propositions indicate the factors having an impact on the value of the option to terminate a relationship. The following implications should be noted. First, when the value of the current relationship(s) deteriorate(s), management should think about the option to exit the relationship. This necessitates constant monitoring of relationship values. Second, management should simultaneously screen potential alternative trading partners and their value in order to assess the value of the real option to exit and switch relationship partners. Third, in uncertain environments, the exit option becomes valuable and likely so that management must consider the exit option from the beginning of the relationship. In such environments, management must keep exit and switching costs low in order preserve the value of the exit option. This includes that it may be beneficial to commit less to relationship partners. Moreover, relationships may be safeguarded less against opportunism when environments are dynamic since cancellation fees reduce the value of the real put option. More flexible relationship arrangements, such as a sequence of short-term contracts, are then appropriate. Fourth and finally, the real options framework can be considered a new management concept that goes beyond traditional analyses by explicitly taking environmental uncertainty and managerial flexibility into account. Real options analysis is the most appropriate management tool when business relationships are exposed to environmental uncertainty and when partners are flexible in reacting to it. The results derived from real
options analysis are highly relevant for strategy development in relationships.

LIMITATIONS AND EXTENSIONS

Some limitations should be noted. First, the presented framework is not all-inclusive. Variables that are difficult to quantify such as trust, social bonds, or closeness can only be indirectly included into a real options framework of relationship termination. Nevertheless, these variables can be expressed as switching costs making the exit from a relationship costly and thus less valuable and less likely. Therefore, it can be concluded that the framework is able to integrate most variables discussed in relationship termination literature and to provide a general framework of relationship dissolution.

Second, the real options approach is usually applied as a normative framework. Researchers and managers use it to assess the value of investment projects under uncertainty and to derive appropriate strategies. If used in this sense, the real options approach is often criticized for its rigorous assumptions that are unlikely to hold in reality (Lander and Pinches 1998). Despite these criticisms, the real options approach has been proven to be appropriate to approximate customer values in the real world (Miller and Park 2002). Moreover, similar valuation methods such as net present value (NPV) analyses use assumptions that are equally rigorous. This is, however, far less criticized.

Third, the translation of financial options theory to real world options is usually not as easy as it may seem at first sight. Although there are a lot of similarities between financial and real options, the application to real investment problems and to buyer-seller relationships yields several problems. For example, several data are necessary to assess the value of real options in buyer-seller relationships (Roemer 2004). High accuracy of the data is needed since real option models are highly sensitive to the underlying input parameters. Therefore, a lot of attention has to be paid to the collection of the necessary input data when the real options framework is used in a positive framework as proposed in this paper.

ENDNOTES

1 It is not intended to give a comprehensive overview of relationship termination literature but to demonstrate the theoretical diversity on which relationship termination research is built. For an extensive literature review, see e.g., Tähtinen and Halinen (2002). Subsequently, the focus is on the literature investigating antecedents of relationship termination, less on the termination process literature (e.g., Duck 1982; Ping and Dwyer 1992).

2 Similarly, consider these real options are considered from the customer’s point of view.

3 In real options theory, value is defined as a cash flow dimension, i.e., gross cash flows minus cash payouts.

4 It can be distinguished between American and European options. An American option can be exercised at any date before and on maturity. European options can only be exercised on maturity. Most real options are, however, American type options.

5 The variable “quality of alternatives” has been originally derived from the comparison level for alternatives (CLalt) in social-exchange theory (Thibaut and Kelley 1959). There, the CLalt is interpreted as the level of outcomes from the best alternative.

6 It may be argued that relationship partners especially invest into close relationships when environments are uncertain. The real options approach accounts for such investments, if partners invest in the flexibility of the relationship (for example in flexible production facilities). In this case, the relationship can adapt to new circumstances or even switch production modes at low cost. In real options terminology such an investment lowers the exercise price and thus increases the value of real call options.
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American Marketing Association / Summer 2005 269
MARKETING METRICS: NEW THINKING ABOUT WHAT CONSTITUTES MARKETING VALUE

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SUMMARY

Market-based, intangible firm assets are recognized by both practitioners and scholars alike as sources of competitive advantage. Recent calls for accountability of investment in marketing activities also point to the importance of better understanding of such assets. Consequently, it is critical for marketing scholars to clearly conceptualize, measure, and investigate the nature and role of these market-based assets. Development of improved marketing metrics, or methods of measuring such assets, should now be the highest priority. This paper provides an integrative review of works written on intangible assets, or more specifically, brand equity, relational equity, customer equity, and innovation equity, as well as marketing metrics.

In recent years, there has been an increased focus on the topic of “marketing metrics” in the marketing literature. Although marketers have long been concerned with the measurement of the impact of marketing expenditures (investments) on firm performance, this theme has been broadened into the realm of market-based intangible assets, or equities.

We provide an integrative review of key works on measurement of marketing value in the contemporary firm. Our aim is to crystallize thinking about intangible assets – both those that are attributable to the firm in general as well as those that are specific to marketing. It is critical that scholars develop a common understanding of how value is generated by market-based assets within the firm, and how more precise measures can be formulated.

We consider the market-based assets, or the value drivers, under four types of equity: (1) Brand equity: Strong brands command both customer and channel partner appeal; (2) Customer Equity: Current and potential customers ensure the future of the business; (3) Relational Equity: Strategic partner relationships with suppliers, customers, and channel members create inimitable advantage; and (4) Innovation Equity: Knowledge of and proficiency with which new products can be launched should create yet another advantage to be leveraged by the firm.

Marketing metrics are “internal and external measurements related to marketing and market position which are believed to be linked to short and long-term financial performance” (Barwise and Farley 2004, p. 257). Ways in which marketing performance measures have evolved over the last few years include: (1) a move from financial to non-financial output measures, (2) a move from output to input measures, and (3) a move from unidimensional to multidimensional measures (Ambler and Riley 2004; Clark 1999).

Marketing metrics require careful articulation. A common process should be followed. Metrics should be linked to strategy, and capture the intended outcomes of marketing activities. Chosen metrics should reflect key value proposition, key product attributes, target markets, and so on. Marketing managers should then articulate which marketing actions drive key market-based assets, such as brand equity, reputation, or knowledge competence. The relationships between actions and market-based outcomes can actually be modeled and better understood. It is also highly desirable to express market-based outcomes in cash flow terms. While each company may develop its own metrics, at a minimum, metrics should include four key elements: return on marketing investment; customer satisfaction; market share in targeted segments; and brand equity (AMI 2004).

Development of better and finer marketing metrics is not without its challenges. First, the cost of securing meaningful information within and outside of the organization can be considerable. Second, marketing professionals need to broaden their scope of expertise to include strategy, finance, and human resource skills. A thorough understanding of discounted cash flow analysis, for example, is a requirement. Third, marketers will need to formulate metrics that can be communicated with the highest level of the organization – the board of directors. Thus the challenge exists of articulating summary metrics that can effectively reflect the contribution of marketing to the firm. Finally, a major challenge relates to the lack of
generally agreed upon terminology for marketing metrics. Unfortunately, there are many and inconsistent interpretations of terms such as “intangible assets,” “shareholder value,” and “return on investment” (AMI 2004).

The future of research on marketing metrics is exciting. Acknowledgment of marketing as a value creator, demonstration of its role in shareholder value creation, and measurement of its impact, are intriguing conceptual and empirical challenges which should bring us closer to the “science” of marketing. If we are able to clearly link marketing inputs and market-based assets to financial outcomes, then we will certainly gain greater respect for the marketing profession. In the process, marketing professionals will be able to offer precise marketing metrics useful to senior management and elevate their standing within the corporation. References are available upon request.

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REGRET AND PERFORMANCE UNCERTAINTY IN CONSUMER REPEAT CHOICE

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SUMMARY

With a few exceptions (Inman and Zeelenberg 2002), the impact of experienced regret and anticipated regret is examined in a static situation in the sense that prior information or experience about competing alternatives is not considered, and the uncertainty of alternatives is totally resolved after making a choice. In a repeat purchase situation, the impact of regret on purchase intention may be contingent on the expected performance and uncertainty of the involved alternatives before a choice is made, in addition to how the expected performance and uncertainty are updated after a choice is made. Failure to address this dynamic in previous studies has led to poor predictive validity of regret.

We extend the framework outlined by Rust et al. (1999) and develop a Bayesian model that can accommodate both chosen and foregone alternatives and capture the effect of regret in a dynamic scheme. Such a scheme not only incorporates a forward-looking aspect, it also accommodates other proposed models for the updating of quality perceptions. In line with the recent consumer satisfaction and purchase intention literature, our model integrates both regret and disappointment into consumer repeat choice (Inman, Dyer, and Jia 1997). We consider performance uncertainty for both chosen and foregone alternatives and view consumers expectations of the two alternatives as distributions. This will allow us to study the interactive effect between regret and uncertainty and to investigate how regret influences the overall evaluation of performance and purchase intention dynamically. The following three hypotheses are formulated based on the model:

H1: If two alternatives with equal average performance and different performance uncertainty produce the same level of performance after choice, then risk-averse (risk-seeking) consumers tend to increase (decrease) their choice intention for the alternative with the higher level of performance uncertainty.

H2: If regret is experienced from choosing the alternative with higher performance uncertainty, risk-seeking consumers will decrease their choice intention for this alternative more significantly than risk-averse consumers.

H3: The predicted pattern of choice intention in H1 will be less salient if the consumer has more experience with the two alternatives, no matter whether the consumer is risk-averse or risk-seeking.

Study 1 was designed to test H1 and H3 jointly. Each participant was first exposed to a scenario about two restaurant alternatives differing solely in waiting time. For the alternative which participants should perceive to have a larger variation, its waiting time in imaginary past experience was distributed more dispersely. The average waiting time was the same in both restaurants (20 minutes). Visiting times were three times in one month for the short experience group and ten times in half a year for the long experience group. Participants were asked to rate their choice intention between the two restaurants before and after reading a new transaction information, his week you visited each restaurant once more, and your waiting minutes for both were 20.

Content analysis of participants overall thinking about the two restaurants reveals that the majority (96.7%) correctly addressed performance uncertainty or inconsistency as the only difference between the two. Risk preference is identified based on participants initial preference: risk-averse participants refer to those who initially prefer A, the alternative with lower performance uncertainty; and risk-seeking are those who initially have higher choice intention for Restaurant B. A 2 (risk preference) 2 (length of experience) ANOVA reveals that risk-averse participants increase their choice intention for Restaurant B and risk-seeking participants decrease their choice intention for Restaurant B, no matter whether participants have short or long experience. In addition, the interaction is in the expected direction as the length of experience increases, the observed change in choice intention decreases, for both risk-seeking participants and risk-averse ones. Thus, both H1 and H3 are supported.

Study 2 was performed to test H2. The same scenario as used in the short experience group of Study 1 was adopted. The procedure was identical to Study 1, except that the new transaction information was substituted to associate the participants feeling of regret with Restaurant B. One-way ANOVA with change in choice intention as the dependent variable and risk preference as the grouping variable reveals a pattern that conforms to the prediction.
by H2. In specific, risk-seeking participants decrease their choice intention for Restaurant B. In the risk-averse group, however, participants choice intention for Restaurant B increases even though the choice causes regret to them. It could not be explained from experienced regret, since no significant difference in measured experienced regret exists between groups.

Our findings empirically show that regret and satisfaction theories that do not account for performance uncertainty are insufficient. Consumers may change their choice intention even though zero disconfirmation and no regret are experienced. The impact of regret and performance uncertainty on choice intention is also contingent on consumer risk preference and experience. Managerially speaking, our findings suggest potential ways and conditions to manage the impact of regret and increase consumer retention. More sophisticated experiments might be conducted in future research by introducing some direct manipulation checks and measuring risk preference more generally. References available upon request.

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COMPARING THREE SIGNALS OF SERVICE QUALITY

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SUMMARY

Perhaps due to the inherent service characteristics of intangibility and variability, it is often difficult to predict satisfaction with service outcome prior to purchase and consumption. Not surprisingly, consumers perceive more risk in the purchase of services than goods (Murray and Schlacter 1990), and they are more likely to search for information before purchasing services than goods (Murray 1991).

The present study focuses on three pre-purchase information cues that may signal unknown service quality. These three cues (signals) are: word-of-mouth communication about a service brand, third-party evaluation of a service brand, and popularity of a service brand. Word-of-mouth is a well-studied cue, but the other two have only rarely been investigated. Third-party refers to an organization independent of the marketer and consumer that may collect data and report the consumption experience of a sample of consumers or compare the service against an objective quality standard. Popularity refers to market share held by a particular brand. This study chooses homeowners’ insurance (a pure service) as an exemplar for the service product category and investigates the impact of these three signals of service quality on consumer prediction of service satisfaction. The three signals appear as factors in experimental designs.

Background and Hypotheses

The risk that a service outcome will be unsatisfactory may be reduced by seeking additional information prior to purchase (Crocker 1986; Lutz and Reilly 1973). In general, the higher the degree of pre-purchase risk, the more a personal source of information is preferred (Mitra, Reiss, and Capella 1999). Specifically, consumers are more likely to prefer and use personal sources of information when purchasing services rather than goods (Murray 1991).

Signal theory (Boulding and Kirmani 1993) states that manufacturers and service providers may reduce consumer uncertainty and perceived purchase risk by sending signals of unobservable product attributes (such as reliability and fitness for intended use). To be credible, however, a signal must have a bonding component, a potential cost to the sender of the signal if the signal is false (Ippolito 1990). Within the context of the present study, third-party evaluation appears to be the signal with the highest bonding cost. Indeed, the third-party stands to suffer a loss of reputation (perhaps their most important asset) if the signal being sent is false. This suggests that the signal being sent by the third-party should exert a strong influence on consumer product choice.

Based on signal attributes, an analysis of the three signals suggests the following hypotheses: a main effect for each signal when the information is favorable, compared to a baseline condition in which the signal is absent (H1), a negativity effect (Mizerski 1982) for signal information which is unfavorable, compared to favorable information of the same magnitude (H2), and a belief that the third-party signal will account for the largest proportion of variance in estimated service satisfaction (H3).

Methods and Results

Convenience samples of university students were used as subjects. A pretest examined respondent perception of stimuli wording and the qualitative meaning of each information cue. The three signals appeared as factors in two experiments with levels of favorable, absent, or unfavorable. Factor levels were presented as manipulations of a scenario printed in a booklet.

All three signals exhibited significant main effects, and a significant two-way ordinal interaction was found between word-of-mouth and third-party evaluation. A means plot of the interaction suggests that a favorable word-of-mouth signal is less influential when it accompanies a favorable third-party signal than when it occurs in the context of an unfavorable third-party signal. In the latter case, the two signals are in conflict and the diagnostic value of the signal is apparently enhanced. Each of the three signals exhibited a negativity effect, meaning that the mean difference between the unfavorable level and the baseline level is greater than the mean difference between the favorable level and the baseline level. All three hypotheses were supported.

Discussion

The results overwhelmingly support the ability of a third-party evaluation to influence respondent attitude toward a service. Among all three cues (signals), third-party evaluation accounted for the largest proportion of variance in the dependent variable and it also had the
largest negativity effect. These effects occurred even though the wording of cue stimuli was pretested to roughly equate the impact of the cues on respondents. That fact that third-party evaluation can compare so favorably with word-of-mouth communication suggests that it deserves to be acknowledged as a signal of product quality and join the list of product quality signals already recognized in the literature. References available upon request

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CUSTOMER SATISFACTION AND TIME AS DRIVERS OF PRICE KNOWLEDGE AFTER THE PURCHASE

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SUMMARY

There is an increasing interest in academic marketing research in the topic of customers’ price knowledge. However, previous research in this domain is subject to a number of limitations. Three issues are particularly worth emphasizing.

First, our understanding of the drivers of price knowledge is still limited because only a small number of drivers have been investigated so far. For example, previous research on price knowledge has not established links to other core and well developed marketing constructs like, for example, customer satisfaction. Second, our understanding of the impact of time (more specifically, time since the purchase) on customers’ ability to remember prices is still limited. Most of the previous studies on price knowledge have been designed in such a manner that they can not analyze the effect of time. Third, previous empirical research on drivers of post purchase price knowledge has not made a distinction between the explicit and the implicit price memory. While the explicit memory relies on conscious retrieval of information, the implicit memory refers to memory without awareness. We consider this omission to be a limitation of previous research on drivers of price knowledge since it may well be the case that the two components of price memory are affected by different antecedents. Against this background, this paper focuses on the central question whether and how customer satisfaction and time (since purchase) influence the customers’ price knowledge after a purchase.

The results of a large scale survey among customers who had purchased a consumer durable indicate that customer satisfaction and time have differential effects on the explicit vs. the implicit price knowledge. While customer satisfaction has a negative impact on the explicit price knowledge, no effect is observed on the implicit price knowledge. Furthermore, the length of time between purchase and retrieval of the price information has a negative impact on the explicit price knowledge, but has no effect on the implicit price knowledge. Finally, we find support for a moderating role of customer satisfaction. The results indicate that the higher the customer satisfaction level, the stronger the negative impact of time on the explicit price knowledge.

The findings have several important implications for marketing managers. For example, the study shows that satisfied customers tend to remember previously paid prices to a lower extent than dissatisfied customers. The corresponding managerial implication is that firms selling consumer goods may find it easier to implement price increases if they achieve a high level of satisfaction. On the other hand, when products are on sale or are aggressively priced, companies are advised to remind customers that they paid a low price. Moreover, the results have implications for retailers using price-matching guarantees. The findings suggests that these guarantees can be implemented at a lower risk for products with which customers are highly satisfied. With respect to the findings concerning the implicit price knowledge, our study suggests that investments in a general price image might be fruitful since a price image (which is more related to the implicit knowledge) might fade to a lesser extent over time than the explicit price knowledge. Advertising strategies could be therefore designed to enhance the processing of price image related information as well as the retrieval of this information from the implicit memory.

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ASSESSING PROMOTION EFFICIENCY USING DATA ENVELOPMENT ANALYSIS

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SUMMARY

Price promotions play an important role in the marketing mix, and are especially pronounced in the grocery industry where intense competition takes place everyday. Consumer sales promotion-related spending increased from $56 billion in 1991 to nearly $100 billion in 2001 (Belch and Belch 2004). Despite this, it has been observed that consumer sales have been relatively flat in the grocery industry over the past ten years (Dusek 1999). This strongly implies that retailers are not spending price promotions efficiently. The objectives of this study are twofold. First, we propose a theoretical framework to assess price promotion efficiency. Second, we help retailers prioritize which brands to promote in a category.

Conceptual Framework

There are four major mechanisms by which promotion affects category sales; brand switching, store switching, category expansion, and purchase acceleration (Blattberg and Neslin 1990). Promotion induces brand switching because most of the consumers are attracted by the lower price the promoted brands offered (Blattberg and Wisniewski 1989). Promotion can also induce store switching because promotion schedules differ from store to store so consumers would switch to the store that offers promotion (Kumar and Leone 1988). Category expansion refers to the ability to convert non-users of that category to become users of that category (Assuncao and Meyer 1993). Purchase acceleration refers to either consumers purchasing earlier than they normally do or they purchase a larger quantity (stockpiling) at one time (Gupta 1988).

We build a model to capture the relationship between promotional characteristics and category sales. The inputs for the model are three promotional characteristics (deal depth, deal frequency, and deal volume), whereas the outputs are sales and profit. Deal depth may induce brand-switching behavior as consumers who are loyal to the competing brand may be attracted to the deep discount offered. As for deal frequency, if a brand is promoted frequently, consumers who are unaware of the promoted brand may become aware and attracted to buy the product, thus causing category expansion. In terms of deal volume, when a large number of brands in the category is on promotion, this may cause purchase acceleration. This is because since the competing brands are as cheap as the brand they are currently using, consumers may buy the competing brands to compare the quality.

While using these input and output variables can tell us if a store is utilizing its promotional inputs efficiently, it does not give any indication on which brand to promote. Therefore, we use three brand characteristics (brand price, bulkiness of brands, and brand type) to test if promotion efficiency is significantly different for those characteristics. We develop the following hypotheses:

H1: Promotion efficiency of higher-priced brands are higher than those of lower-priced brands.
H2: Promotion efficiency of less bulky brands are higher than those of more bulky brands.
H3: Promotion efficiency of national brands are higher than those of store brands.

Data and Methodology

Our scanner data come from the Dominick chain of grocery stores, which operate mainly in the Chicago metropolitan area. The data consist of up to 399 weekly observations of actual transactions, from September 14, 1989 to May 8, 1997. The data contain information on unit sales, retail price, and profit margins. Here, we study only the refrigerated fruit juice category. Details on how we operationalize the variables can be obtained from the authors.

A common technique used to measure efficiency is Data Envelopment Analysis (DEA) (Luo and Donthu 2001). The mathematical programming procedure in DEA compares the outputs and inputs of several decision-making units (DMUs) and identifies the most efficient set of DMUs to which any particular unit should be compared, based on the similarity of their input and output levels. The efficiency score is usually expressed as either a number between 0 and 1 or 0 to 100 percent. A DMU with a score of 1 is deemed to be efficient, with respect to other DMUs. For a summary on the strengths of DEA, please refer to Donthu, Hershberger, and Osmonbekov (2005).
Results

Our results indicate that 10.5 percent of the stores are 100 percent price promotion efficient, and 28 percent of the stores operate below 50 percent price promotion efficiency. The average price promotion inefficiency is 38.61 percent, implying that 38.61 percent of promotion resources are wasted in generating sales. The main source of inefficiency comes from deal frequency, and we show that the stores could reduce on average 7.3 percent of the number of weeks a UPC on deal. In addition, deal depth is the most important input in determining price promotion efficiency, and about 70 percent of the stores experience a decreasing rate of return for promotion efficiency.

In addition, we find that H1 is not supported. This could be due to the fact that most consumers purchase under budget constraint, therefore consumers are only able to stockpile low-priced brands when they are on promotion. We find support for H2, indicating that consumers stockpile less bulky brands in a greater degree so that less promotion inputs are needed to reach the same level of sales compared to more bulky brands. Finally, H3 is also supported, our result reveals that consumers perceive national brands as more value-added when they are on promotion, so that they stockpile or accelerate their purchase of national brands during promotion. References available upon request.

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SUMMARY

There are many recommendations about how to break through the crowded ad clutter and make a brand’s advertising memorable. This study extends previous research to determine whether and how much stronger long-term memory may be for brands that have benefitted from publicity. This study investigates whether publicity about advertising campaigns affects audience memory of the publicized and other non-publicized advertisements. Specifically, we explore two issues. First, what mechanism accounts for the effects of publicity on subsequent ad memory if the effects exist? Second, do the effects of publicity differ across different measures of memory, namely recall vs. recognition?

We hypothesize that repeated exposure via extra publicity enhances brand salience, thereby increasing the ability of a consumer to recall the brand. At the same time, the enhanced salience of the brand due to publicity can suppress retrieval of other brands that would otherwise have been retrieved. Thus, those who are exposed to publicity and ads (experimental group) will have higher recall for the publicized brands and lower recall for non-publicized brands than those who are exposed to ads only (control group). For such inhibitive effects to occur, we predict that those publicized brands will be recalled in earlier sequences during a recall test. Based on the differentiation hypothesis (Shiffrin et al. 1990; Shiffrin and Steyvers 1997), we predict that publicity will not inhibit the recognition of other advertised brands that are not mentioned via publicity. Thus, those who are exposed to both publicity and ads will have the same level of recognition sensitivity (d’) for non-publicized brands as those who are exposed to ads only.

In our daily life, exposure to publicity and ads do not occur simultaneously. Further, most consumers do not use brand information right after publicity or ad exposure. In both cases, time lags exist between exposures, and between exposure and use. A study design that incorporates a substantial time lag between two exposures and a long-term memory test is desirable. Some researchers argue that too much advertising research is conducted in the laboratory and movement into the field would be beneficial for ecological validity (Lutz 1996; Wells 1993). These considerations led to our study design. In the experimental group, some brands that would later appear during the Super Bowl game were pre-exposed in Phase 1. The control group was not exposed to the stimulus. At Phase 2, two days after Phase 1, respondents watched the Super Bowl and the associated ads in a natural setting. Subjects did not anticipate subsequent memory tests of the ads and they watched the game and ads in their natural environments. In Phase 3, a day after Phase 2, subjects were tested for either recall or recognition of brands. The outcomes of recall and recognition in two groups were subsequently compared.

Our results suggest that salience created from publicity has some distinctive characteristics. People who received publicity recalled the brands both more and earlier than those individuals who were not exposed to publicity. More importantly, those in the experimental group recalled other brands that were not in the publicity significantly less. The overall average recall score of the experimental group was not different from that of the control group. It suggests that the recall of salient items with more “memory strength” occurs at the expense of those less salient items. The inhibition effect was not found in recognition, however.

Using a pre-announcement to kick off an advertising campaign can enhance the efficiency and effectiveness of the campaign. Publicity can be an important first step in developing integrated marketing communications (IMC). The present study suggests that publicity about an ad campaign is an important marketing activity that operates in favor of the marketer’s brand and against competitors’ brands simultaneously. References available upon request.
PACKAGING AND THE BRAND: A COMPREHENSIVE LITERATURE REVIEW

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SUMMARY

For many of today’s consumer product manufacturers, packaging strategy is now at the forefront of brand strategy (Arnold 2003; Biddie 2004). The heightened role for product packaging in the overall scope of marketing is due to the confluence of multiple market factors and consumer trends. Market factors heightening the importance of packaging include: a proliferation of new products and brands resulting in unprecedented product choice and shelf competition; corporate reductions in spending on traditional brand-building mass-media advertising and commensurate increases in funding for trade, sales promotion and point-of-purchase marketing vehicles; and an increasing managerial focus on the efficient use of marketing communication funds (Underwood 2003). Current consumer trends contributing to this effect include an increase in consumers’ product buying decisions at the store shelf (Arnold 2003; POPAI 2001) and increasing consumer demand for product mobility and convenience (Biddie 2004; Doyle 2002).

Packaging is often the critical strategic element for brand differentiation and identity in many product categories, especially relatively homogeneous low-involvement consumer nondurables (AMA 1998; Doyle 1999; Underwood 2003). In addition to brand identity creation and conveyance, packaging innovations are increasingly driving brand usage rates via functional improvements (Biddie 2004; Doyle 2002). For many nondurable consumer product manufacturers, packaging innovation is resulting in more incremental sales than new product innovation; at a significantly lower front-end investment (Biddie 2004).

While packaging is the subject of renewed interest by practitioners, academic focus on the subject is inconsistent, especially compared to the extensive and systematic study of marketing elements such as advertising and pricing. The purpose of this paper is to review the extant literature relating to packaging, and integrate these findings with existing theoretical frameworks in the areas of brand management, buyer behavior, information processing, marketing communication, and product design. The paper examines issues related to the communicative roles of packaging, consumer processing and comprehension of package information, integration of package and product design, packaging as brand symbolism, and methodological issues in packaging research. Our examination of the literature defines and outlines the packaging construct, characterizes the current state of packaging research and identifies directions for future research.

The paper constitutes a comprehensive review of more than sixty academic articles and conference papers that report a conceptual and/or empirical analysis of packaging as a brand management or marketing communications tool. It provides an analysis of both empirical studies (research synthesis) and theoretical works (theoretical review) (Cooper 1998). The review begins with literature detailing the definition and roles of the packaging construct. This starting point affords a distinct conceptualization of the packaging construct, its meaning and purpose, as well as its multiple managerial roles. The works are then synthesized into three additional streams of research, each reflecting a main conceptual area of marketing study relating to product packaging. Although distinct in the specific area of focus, the issues addressed in these three streams are often interrelated (Cornwell and Maigian 1998):

1. Consumer Processing of Packaging Stimuli: The central focus of this theme is consumer perceptions of product packaging; including issues concerning package design influences on multiple consumer response variables such as attention, beliefs, feelings, and behavior. Additionally, issues regarding packaging management and innovation are addressed.

2. Packaging as Brand Communication: The critical role of packaging in the creation and/or communication of brand meaning and identity is the core focus of this theme.

3. Packaging Comprehension, Labeling, and Ethical Issues: This theme centers on ethical and legal issues concerning the comprehension of packaging information; and the impact of packaging on the environment.

Our review of packaging research illustrates an emerging body of conceptual and empirical results to assist managers in packaging strategy decisions and academics in theory development. Synthesizing the literature, we
discover packaging is a multi-faceted product-related attribute playing an increasingly important role in brand development and marketing communication. This review suggests fertile ground for additional research opportunities. Specifically, efforts measuring variables or situations (e.g., buying contexts, product categories, retail formats) that affect the relative importance of product packaging to the brand and to the consumer will be highly valued. Additional focus on packaging symbolism and brand meaning is a second area of opportunity in packaging research. Researchers could also build on a strong consumer behavior foundation to better understand the influence of packaging on consumer-brand relationship development. Finally, efforts to better measure return on investment for strategic packaging innovation would be of great benefit to consumer manufacturers. References available upon request.

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DEVELOPMENT AND VALIDATION OF A SERVICE CONVENIENCE MODEL

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SUMMARY

Service convenience has been an important concept in the marketing literature. However, a comprehensive examination of its meaning and conceptual domain had not been undertaken until recently. Berry, Seiders, and Grewal (2002), in their groundbreaking research, delineated the concept by providing a multidimensional definition and by developing a conceptual framework, including antecedents and consequences of service convenience. Furthermore, they advanced a set of testable propositions regarding the role service convenience. The present study provides an empirical test of a model of service convenience that is primarily based on the work of Berry, Seiders, and Grewal (2002).

The study uses a three-dimensional definition of service convenience, which includes access, transaction and staff convenience. Staff convenience is defined as the availability of sufficient number of frontline employees to help customers. Access convenience involves a customer’s perceived time and effort expenditures to initiate service delivery. Transaction convenience involves a consumer’s perceived expenditures of time and effort to complete a service transaction. It is proposed that service convenience is a key construct that affects purchase and repurchases decisions. A direct relation is hypothesized between the three dimensions of service convenience and relative perceived quality and relative perceived value. The latter two constructs, relative perceived quality and relative perceived value are already shown to be antecedents of behavioral intentions from previous research (e.g., Sirohi, McLaughlin, and Wittink 1998) and their relationship is once again tested in the present study. In addition, perceived quality has been shown to have a positive impact on the perceived service value (Bolton and Drew 1991), which is also tested in the study. Three control variables age, education and income were included in the analysis because such background variables may influence the strengths of the hypothesized relationships among model constructs (Mittal and Kamakura 2001). In addition, research suggests that demographic variables may have direct influences on the levels of the constructs in the model tested (e.g., Gagliano and Hathcote 1994; Stafford 1996). Controlling for the potential effects of the demographic variables should allow for better delineation of the proposed effects of service convenience.

A large retail organization that offers a major merchandise line and related services sponsored the study. Based on the insights from outputs of a series of focus group sessions and a review of the relevant literature, an initial questionnaire was designed jointly by the research team and management team and was pretested and further revised. A total of 90,000 surveys were mailed to randomly selected customers and 17,034 were returned (18.9% response rate). Measures of perceived value (3 items) and behavioral intentions (2 items) were adopted from existing literature (Sirohi, McLaughlin, and Wittink 1998). Measures for perceived quality (5 items) and convenience (a total of 11 items) were developed for this study based on customer focus group data and pretest results. Age was measured on a 7-point scale. Education and income were measured on 6-point scales. Te multi-item measures of the model constructs exhibited adequate measurement properties.

The results indicate that all three service convenience constructs are instrumental in determining a customer’s perception of perceived service value and perceived quality, which ultimately influence the customer’s behavioral intentions. Because of the role of time and effort in defining access and transaction convenience, this study reinforces the importance of time and effort in the perceived value and quality of the service. The relationship between perceived value and behavioral intentions is also significant in the model. Finally, significant impacts by both perceived quality and value on behavioral intentions replicates previous findings. Demographic variables exert significant direct influences on a number of constructs on the model. For instance, the positive relationship between age and all three service convenience constructs suggest that convenience needs to be emphasized to younger potential customers. On the other hand, the significant inverse relationship of education and income with convenience suggests that the retailer has an opportunity to improve its convenience appeal to current and potential customers with higher education and income levels.

The findings indicate that service convenience proves to be an important concept for managerial attention. The significant relationship between access convenience and perceived value reinforces the need for the managers to consider location and ambient aspects of their stores to
enhance the value perceptions of the consumers. In addition, the significant relationship between transaction convenience and perceived quality points to the need for carefully considering the time it takes to complete a service transaction in designing a service offering. The influence of both perceived value and quality on behavioral intentions suggests that managers understand the importance of perceived value and quality in retaining existing customers and attracting new ones. Future research could include other dimensions of service convenience and examine actual patronage behavior as the outcome variable. This would allow us to better understand the role of service convenience in relation to financial outcomes. Reference available upon request

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THE USE OF SHOP-AT-HOME TELEVISION PROGRAMS IN THE TRAVEL INDUSTRY: AN ANALYSIS OF CONSUMER’S CONSUMPTION MOTIVES

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SUMMARY

One aspect of travel-related consumer behavior worth attention is the motivation to book a holiday within a certain distribution channel. Different channels are available to the consumer for booking travel services (e.g., Louvieris et al. 2003). In the past, retail travel agents played an important role in the tourism distribution channel. More recently, ongoing technological advancements and the advent of online bookings have left many intermediaries sidelined. Online travel agents are one of the fastest growing areas of E-commerce (Susskind et al. 2003). However, it seems that the Internet is more suitable for selling standardized travel products (e.g., flight only). In terms of travel products that require explanation the Internet may not be the ideal channel. For example, package tours are made up of numerous individual components (accommodation, catering, transportation, access to leisure facilities, etc.) which cannot be easily presented on a website. Recently, a new distribution channel has emerged that overcomes the shortcomings of other channels, namely shop-at-home travel television (hereafter SAHTTV). In Europe, SAHTTV is beginning to gain a foothold as a new distribution channel in the tourism market. Although researchers have examined some motives for buying through direct-response television, little attention has been devoted to understanding why consumers buy holidays through direct-response television.

Our study aimed to better understand the motivations behind watching SAHTTV programs. Further, it aims to identify the existence of distinct vacation-booking segments from those who view SAHTTV programs. Implications for marketing management are discussed.

Method

A questionnaire was mailed to 2,948 viewers of a German TV travel sales channel resulting in 978 usable surveys. The identification of viewer booking motives was oriented toward the question: “What is important for you when you want to book a vacation with this TV travel sales channel?” Because no established scales for motives of SAHTTV related booking behavior were available, items were constructed that represented the different types of motives suggested by Geuens et al. (2001). A pool of 11 items was generated and subjected to expert and user judgment. Exploratory factor analysis (principal components analysis with varimax rotation) resulted in a four-factor solution that accounted for 63 percent of variation:

Factor 1: Convenience (α = .74). Viewers who score high on this factor appreciate the ability to receive information, book at any time, and receive personal advice.

Factor 2: Quality (α = .71). This factor is an expression of an orientation toward brand quality. High scorers on this factor report that citing the name of the tour operator conveys a certain degree of soundness and trust.

Factor 3: Risk reduction (α = .68). This factor reflects the viewers’ wish to reduce the perceived risk by performing a visual “inspection” before purchasing a vacation package.

Factor 4: Experiential (α = .56). This factor captures the participatory aspects viewers associate with watching the TV travel sales channel and purchasing a vacation package.

To identify motive groups of viewers, a hierarchical cluster analysis followed by a k-means analysis was performed. Each subject’s relative standing on each of the four factors was estimated by computing factor scores, which were then used as input variables for clustering. A four-cluster solution was the most appropriate representation of the data.

Cluster 1 represents viewers for whom the factors Convenience and Experience are significantly above average, while the factor Quality plays a below average and Risk reduction an average role. In comparison with the other clusters, members of this Convenience and Experience Influenced group, who on average are somewhat older, primarily male and mostly childless, have the lowest viewing duration and only Cluster 4 watches SAHTTV less frequently. Cluster 2 is the largest and youngest segment. For members of this cluster all four
factors have below average significance, and of all groups they exhibit the highest (negative) values on the motivation factors (except Convenience). This group was labeled Averse to Risk and Experience viewers, for who compared with the other groups the factors Quality, Risk reduction and Experience are of below average importance. The below average rating of Experience seems to indicate their fact-oriented approach to making holiday decisions. In other words, none of the four motive factors play a role in their booking decisions, suggesting that Price Consciousness dominates its booking decisions. The Quality-oriented viewers in Cluster 3 had significantly above average ratings on the Quality factor, while Convenience and Risk reduction were below average. Experience received an average rating. Respondents from this group seem to be selective and prefer offers from well-known operators. The fourth and smallest cluster represents viewers for which the factor Convenience has below average significance (highest negative value of all groups), whereas Risk reduction (highest positive value of all groups) is extremely important to them. The factors Quality and Experience seem to play a negligible role. Members of this group exhibit the lowest viewing frequency and go on holiday most frequently.

Implications

The existence of the four SAHTTV viewer segments has direct consequences for the strategic marketing of holiday-services in general, and SAHTTV suppliers in particular, in three areas: (a) the design of distribution structures with regard to segment-specific multi-channel management; (b) the organization of the supplier’s communication and positioning strategy (e.g., value for money supplier vs. high-priced quality supplier); and (c) the design of the product offering (e.g., specializing in educational trips vs. package tours). For example, convenience aspects represent an essential booking motive for Cluster 1. This element can be emphasized by offering services which further simplify the booking process. It would be conceivable, for instance, to set up a special hotline for this viewer group to quickly clarify questions regarding the reservations. Future research could try to provide a more detailed description of the individual segments with variables that simplify the practical identification and communication with individual viewer groups. Of particular interest in this respect is how much overlap exists between the booking groups with reference to their use of different media. References are available upon request.
COMPETITIVE INTERFERENCE WITH CORPORATE INFLUENCES ON THE PRODUCT PORTFOLIO

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SUMMARY

While corporate messages can create an image encompassing many aspects of the company (Drumwright 1996; Johnson and Zinkhan 1990), they may also influence consumers’ judgments about products marketed by the company (Brown and Dacin 1997; Duncan and Moriarty 1998; Gurhan-Canli and Batra 2004; Hatch and Schultz 2001; Raju and Dhar 1999). However, so far research has not examined corporate message influences on multiple products in a company’s portfolio. It also has not examined how a product’s competitive environment influences corporate-to-product knowledge transfer in a portfolio context. Competitive interference has a consistently negative impact on product retrieval (Burke and Srull 1988; Keller 1987; Kent and Allen 1994), but we do not know its impact on the product inferences consumers make from corporate messages.

This research therefore investigates corporate-message effects on multiple products in a company’s portfolio within a varying corporate-message processing context. It utilizes the accessibility-diagnosticity (A-D) framework (Feldman and Lynch 1988). According to A-D, when consumers have several information sources, selecting and using one lessens the diagnosticity of other accessible sources (Lynch, Marmorstein, and Weigold 1988). For a corporate message to influence product judgments, it must be accessible when product information is activated, diagnostic in evaluating products, and more diagnostic relative to other accessible and relevant information. In this research, we vary the diagnosticity of corporate messages by changing the nature of competitive message interference and tracing its impact on corporate-message diagnosticity for judging products in the company’s portfolio.

Our stimuli included a corporate message, separate product messages for a hotel and a restaurant in the company’s portfolio, and a competitive hotel message. Participants encountered these stimuli in a 2 (competitive message sequence) x 2 (competitive message similarity) between-subjects experimental design. The competitive message sequence manipulation had two sequences: corporate – competitive hotel – company’s hotel (proactive sequence), and corporate – company’s hotel – competitive hotel (retroactive sequence). Both sequences were followed by the company’s restaurant message. The competitive message similarity manipulation examined two levels of similarity between the company’s hotel and the competitive hotel: high and low similarity.

Our findings were consistent with predicted differences in diagnosticity caused by properties of the competitive environment. Interference of corporate-to-hotel transfer occurred only when the competitive message was proactive and positioned similarly, i.e., highly diagnostic. This finding complements other research which shows that increasing the variability between competing product messages, thus reducing similarity and increasing differentiation, leads to less interference (Keller 1991; Unnava and Sirdeshmukh 1994). Finally, interference was limited by product category; the company’s restaurant was unaffected by the competitive hotel message.

Despite some limitations, this research has important managerial implications. Corporate messages, unlike product messages, may influence consumers’ judgments of several products, not just one. Thus, they potentially bring the entire portfolio “into play.” Managers should carefully consider the respective roles of corporate and product messages for targeting customers across the company’s product portfolio.

Two questions are important for managers in corporate and product marketing and branding functions. First, how should managers handle corporate versus product positioning? Our findings imply managers need to design and position corporate messages in the context of maximizing product effects. However, to do this effectively, they need to carefully consider competitive differentiation issues. In this research, differentiation was manipulated to be high or low. When it was low, i.e., products were similarly positioned, participants appeared to focus on disentangling the company’s product from the competitive product. Consequently, they focused less on the corporate message and did not integrate it into their product beliefs. This suggests that if a product is well-differentiated, customers may be more likely to integrate corporate message information into their product judgments. Corporate messages may therefore enhance judgments of new products, assuming they are effectively differentiated. In this way, companies may realize communications efficiencies through corporate messaging: instead of repeating already-differentiated product positions and building new products separately, companies
can build a strong corporate message which can be effectively utilized across the portfolio.

The second question is *do managers want consumers to evaluate products in a corporate context first or a product context first?* Our study used a (C P) message sequence, but managers should consider other possibilities, e.g., (P C), (C P C), (C P C P C P), and CP delivered contemporaneously. Unfortunately, we know very little about the relative merits of different message sequences. Possibly managers should use a corporate context first when products are undifferentiated or are new or unfamiliar to target markets, thereby establishing the viability of new products in consumers’ minds. However, it may be more effective to have a product context first when products are highly differentiated. Subsequent corporate messages could then be used to give a broad affective “boost.” These possibilities have important managerial implications for tactical decisions about message scheduling and the use of overlapping media. Clearly, a lot of interesting issues remain for future research efforts. References available upon request.

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CUE UTILIZATION IN ONLINE AND OFFLINE ENVIRONMENTS

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SUMMARY

Online environments are characterized by low search costs, increased risk perception, expanded markets, and increased efficiency for consumers in gathering product-related information. Therefore, it is of interest to both researchers and practitioners to understand the underlying mechanisms that explain differences in online and offline choice behavior. Studies in this area have largely utilized search cost literature in examining the differences between online and offline consumer behavior. The general conclusion being that the greater information on the web should intensify both product and price search for consumers, leading to more efficient markets and intensified price competition. However, the results of market efficiency analysis have provided mixed results. While some studies found greater efficiency in online markets (Brynjolfsson and Smith 1999), most studies found that price dispersions remained substantial online. (Lee 1997; Bailey 1998a, 1998b). These and other studies provide proof that price is not such an important determinant of choice behavior as expected by market efficiency theorists.

An interesting question that arises is whether the context within which decisions are framed in online and offline environments affects the relative importance of extrinsic and intrinsic cues in making product decisions. Do consumers utilize different cues when making their choices online vs. offline? Is price a more important determinant of choice online as expected by “market efficiency” theories or are consumers going to weigh product attribute information more since such information is readily available at lower costs in online environments? What determines which cues will be used in online versus offline environments?

Building on previous literature on cue utilization, (Dodd et al. 1991; Ziehtamal 1998; Rao and Monroe 1989; Degeratu et al. 2001), this study attempts to compare cue utilization in online vs. offline shopping environments. We compare the relative effects of several extrinsic (brand name, store name, and price) and intrinsic product attribute cues on product evaluations for both online and offline purchase situations.

Research Design and Methodology

Hypotheses were formulated and tested using a 2x2x2x2 between subjects factorial design. The study design included 2 price levels (high, low), 2 store levels (high, low), 2 product attribute levels (high, low), and 2 purchase environments (online/offline). Shopping scenarios were used to manipulate the independent variables – price, brand name, store name, and intrinsic attributes. Subjects were then randomly assigned to one of the 16 experimental conditions in a between-subjects design. After being presented with each shopping scenario, subjects were asked to evaluate product quality, value, and willingness to buy. All scales were taken from previous research and only slight modifications were made.

Key Results

The effect of product cues on willingness to buy shows different patterns in online and offline purchases. Store name has a much greater effect in online choices in determining consumers’ purchase intent. While product attributes and brand image were the most important determinants of purchase intent in offline choices, followed by price and lastly store name; store name was the second most important determinant of purchase intent after product attributes in online choices, followed by price and brand name.

This suggests that consumers care more about which store they shop from in online purchases. Consumers try to reduce risk by showing preference for a retailer that they trust. Therefore, gaining consumers’ trust and assuring consumers should have strategic priority in online retailing.

This finding is also contrary to the expectations in economics literature that increased availability of information should lead to increased consumer price sensitivity and would lead to diminished profit margins. Although consumers are more empowered with knowledge in online choices, the greater perceived risk in online purchase situations has a counter balancing effect. Consumers seem to prefer to shop from a store they trust, rather than shopping by price. References available upon request.
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PROBING SIGHT AND SOUND SENSES IN THE ONLINE ENVIRONMENT: ASSESSMENT OF INDIVIDUAL RESPONSES TO WEB AESTHETICS

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ABSTRACT

This study extends insights about aesthetic cues within the traditional consumption setting to the online environment. Our findings indicate that there is a modulation point where any additional increase in the aesthetic level on an e-commerce web page will result in a decrease in the affective level of the user.

INTRODUCTION

In recent times, marketing and consumer researchers have increasingly focused on investigating the relationship between basic human senses and the traditional consumption decision-making process. Evidence from consumer and marketing research indicates considerable interest in the five human senses of sight, sound, smell, touch, and taste (e.g., Baker, Parasuraman, Grewal, and Voss 2002; Spangenberg, Crowley, and Henderson 1996). The online environment presents an unusual case in which the use of three of the senses is eliminated (taste, touch, smell). With this premise, the two remaining senses (sight, sound) must therefore take on increased importance in this environment.

The effect of aesthetic stimuli on consumers’ decision-making processes has been well studied in the traditional consumption environment. With the exponential growth of e-commerce, and the increased focus of marketing researchers on understanding non-traditional consumption settings, there is surprisingly little evidence within marketing and consumer research on how consumers react to “first-sense” sight and sound stimuli in the online environment. A good example of a first-sense stimulus on the user’s sight and sound senses in the virtual environment, is the aesthetic design of an e-commerce home page. After a thorough search of the marketing, psychology and IT literature, only two studies were found that directly addressed the effect of web page aesthetics on users’ attitudes towards websites (McMillian, Hwang, and Lee 2003; Schenkman and Jonsson 2000). Neither of these studies provided a comprehensive assessment of the probable inducement effects of web aesthetic cues on an individual’s sight and sound senses. Another related study by Coyle and Thorson (2001) in the advertising literature examined the relationship between users’ attitudes and the vividness of web marketing sites in the context of advertising. Again, a systematic consideration of how the aesthetic cues in the online environment evokes an individual’s sight and sound senses was not addressed in their study.

As researchers in the marketing field, it is important to better understand individual responses to visual and sound aesthetics on e-commerce web pages. The need for research on this topic is pressing. The Forrester research group recently predicted that the size of global online trade will grow to $12.8 trillion in 2006. The Forrester group also predicted that the U.S. business-to-consumer and business-to-business sales over the Internet will expand to $7 trillion in 2006. Apart from the anticipated exponential growth of business-to-consumer sales over the Internet, current studies by consumer behavior researchers related to the assessment of visual aesthetics in the traditional consumption setting have also amplified the need to expand the aesthetics concept to the online environment (e.g., Bloch, Brunel, and Arnold 2003). Our goal is to investigate the responses of online consumers to the visual and sound aesthetics of e-commerce web pages. A subordinate goal is to attempt to examine the proposition by Bloch et al. (2003) that users with high aesthetic affinity are more likely to prefer websites with a high level of aesthetics than users with lower affinity for aesthetics.

For the purpose of this study, aesthetics is defined as “a guiding principle in matters of artistic beauty and taste; artistic sensibility” (cf., Weinman 2003, p. 17–18). We follow one of Weinman’s (2003) interpretations of the aesthetics definition which indicates that the assessment of something as “beautiful and artistic” is a subjective judgment. The subjective nature of the interpretation of aesthetics feeds into the methodology used for this study which focused on analyzing each respondent’s perception of visual and sound aesthetics on e-commerce web pages. According to Weinman (2003), the visual aspects of the aesthetics of a web page include: color combinations, graphic types, layout structure, typography-text font and size, and flash-animation. In terms of sound aesthetics, we interpret Coyle and Thorson’s (2001) concept of web page audio effects and music as sound aesthetics.

This study adds knowledge to the marketing and consumer behavior literature in three ways. First, we provide answers to several research questions posed by
Internet consumer behavior and marketing researchers with respect to the factors that will enable e-commerce business players to create a compelling online environment for web consumers. We address these issues from the perspective of web consumers’ responses to the aesthetics of e-commerce web pages. For example, Novak et al. (2000, p. 22) posited that “very little is known about the factors that make using the web a compelling experience for its users, and of the key consumer behavior outcomes of this compelling experience.” Heijden’s (2003) study also highlighted the need to conceptually and empirically explore the impact of website aesthetic features such as visual attractiveness on consumers’ attitudes toward using the website. Second, we extend the literature of human basic senses in the traditional consumption environment to the online environment. Finally, we provide an insightful understanding of the effect of aesthetics on consumers’ participation in the virtual environment.

In the next section, we review the literature of visual and sound aesthetics in the traditional consumption setting and other related literature, linking this phenomenon to the online environment. We follow this with the development of hypotheses deduced from previous research about web consumers’ responses to visual and sound aesthetics in the online environment. Subsequently, we present the methodology and the findings of the results generated from a survey of undergraduate students at a selected university. We conclude by discussing the results of the study and the implications of the study for further research.

LITERATURE REVIEW

Reviews of relevant studies on the responses of consumers to various stimuli in the traditional consumption setting indicate significant reference to environmental psychology literature. Previous studies relating marketing to environmental psychology indicate that the extent of affect and arousal exhibited by the person to the environment may be ascertained through some level of integration associated with the characteristics of the environment (Spangenberg, Crowley, and Henderson 1996). According to Bower (1981), affective response is an emotional response to something that can impact an individual’s psychological mind state. Arousal, however, refers to a physiological “feeling state” more directly appraised by verbal report (Mehrabian and Russell 1974).

Aesthetics Research

Over the years, aesthetics researchers have approached the explanation of aesthetics from the dimension of affective and arousal responses. There are two contrasting views in the marketing literature regarding the affective and arousal nature of the environment. The first view contends that affect and arousal responses are related constructs (Berlyne 1974). Berlyne’s view is also supported by Crowley’s (1993) findings which indicate some level of correlation between affect and activation, a construct related to arousal. The second and contrasting view is championed by Russell and Pratt’s (1980) findings that suggest the affect construct and the arousal construct are two independent constructs. The arousal dimension of aesthetics was illustrated by Berlyne (1974) using several related variables, such as novelty, complexity and wholeness, to connect the arousal component of aesthetics. The arousal component of aesthetics posited by Berlyne has been a contentious subject of debate among aesthetics researchers (e.g., Crozier 1994). Crozier (1994), in discussing the appeal of product design, contends that the approach used by Berlyne disregards issues related to an individual’s interpretation of product meaning and function.

HYPOTHESES

Previous studies on the affective characteristics of a product can be related to the work of Nielsen (1996) and Jordan (1998). According to Nielsen (1996), the aesthetic worth of a product is concerned with how pleasing and attractive the product is to users. Furthermore, Jordan (1998) finds that products that manifest affective or pleasurable experiences are more favored than less affective or pleasurable products. Hence, we propose that websites perceived to have more visual aesthetics will manifest more affective or pleasurable experiences, thereby positively influencing the attitude of the user. Hypothesis 1: The online user’s attitude towards e-commerce web pages with more aesthetics will be more positive than for those with less aesthetics (Supported).

Heijden (2003) finds that perceived visual attractiveness of the website positively influences the users’ attitude. Previous research in advertising suggests that the presence of an animated object enhanced attitude toward the website (Choi, Miracle, and Biocca 2001). Coyle and Thorson also find that websites with audio and animation choice availability commanded the most favorable attitude from users. Thus, we propose that websites with flash and animation aesthetics positively influence the attitude of the user. Hypothesis 2: The online user’s attitude toward e-commerce web pages with flash and animation aesthetics will be more positive than towards those with less aesthetics (Supported).

Previous research on music cues in the traditional consumption setting has shown that music stimulates emotions (e.g., Dube and Chebat 1995). The two notable theories on the attentional effect of music converge in terms of the cognitive effect of music, but contrast in terms of the most favorable arousal level. While one theory
indicates that the higher the arousal, the higher the attentional waves (Davenport 1974), the opposing theory suggests that a soothing musical cue is positively related to high attention scores (Borling 1981). In either case, we propose that websites with music aesthetics will positively influence the attitude of the user. Hypothesis 3: The online user’s attitude toward e-commerce web pages with music aesthetics will be more positive than towards those without music aesthetics (Not Supported).

METHODOLOGY

Research Instruments

The works of previous researchers (Heijden 2003; Heijden and Verhagen 2004; Schenkman and Jonsson 2000; Berlyne 1974) were reviewed to ensure instrument validity. To further ensure face validity and content validity of the instrument, a pilot study was conducted using six PhD students and other student volunteers. The final instrument was adapted and modified from Schenkman and Jonsson’s (2000) category scales, designed to evaluate web page complexity, legibility, order, beauty, meaningfulness, and comprehension. Additionally, Heijden’s (2003) website perceived attractiveness scale items were incorporated to assess the respondents’ aesthetic ratings for each of the web pages used for the study. All items were scored on a seven-point Likert-type scale. Attitude toward searching or making a purchase on any one of the four web pages used was measured using a one item 7-point Likert scale adapted and modified from Heijden and Verhagen’s (2004) study.

Manipulation Check

The interrater reliability for the selected websites was computed as 0.94 using a two-group assessment team method recommended by Fusaro, El Eman, and Smith (1997). Consequently, we were convinced that the participants to be surveyed for the main study would be able to detect significant differences among the different categories of aesthetic websites used for the study.

Procedure/Data Collection

The first two web pages [judged as having low aesthetics and medium aesthetics] were drawn from a list of previously selected web pages based on Weinman’s (2003) assessment of their aesthetic features. The high aesthetic and the “music plus high aesthetic” web pages were drawn from Bestflashanimationsite, a website that provides a virtual forum for web designers and the general public to vote for different competing e-commerce web pages (see Table 1 for classification details). We conducted the main study by randomly sampling undergradu- ate students in a southern regional university. At the time of the experiment, participants were given both verbal and written instructions about the experiment. Each web page was assigned an alphabetical label. Participants were asked to indicate their preferences between web pages A and B, and web pages C and D.

RESULTS

Descriptive Statistics

Of the 112 respondents who participated, 103 usable questionnaires were retained which resulted in a total of 412 evaluations. The average age of respondents was under 23. With regard to respondent’s income status, the majority of the respondents earn between $5,001–$10,000 (52.4%) and $10,001–$25,001 (31.1%). The result shows significant differences between the web pages. In terms of aesthetic rating, the low aesthetic web page had the lowest rating with complexity mean score of 4.35 (higher mean score for complexity depicts a negative attitude towards the web page) and attitude mean score of 3.39. The overall mean scores for the medium aesthetic web page suggest that this web page was the most favored in terms of aesthetic rating. Overall, the results indicate a close relationship between attitude score and the aesthetic evaluation rating (see Table 2).

Statistical Analysis

To further identify the measure or combination of measures that is most effective in distinguishing between a web page with aesthetic features and a web page without aesthetic features, we applied the multivariate discriminant analysis technique on our sample data using the stepwise approach to control for multicollinearity between the measures (Hair, Anderson, Tatham, and Black 1998). The independent variables in this case are the aesthetic measures used which include complexity, legibility, order, beauty, meaningfulness, and comprehension, while the categorical dependent variables are represented by four different web pages categorized as groups 1, 2, 3, and 4. The Wilks’ Lambda (WL) shows that the comparison of the final WL for the analysis (.610) with the WL (.638) for the best result using a single variable, beauty, indicate some level of improvement in using the discriminate function rather than a single variable. The function is statistically significant as measured by the Chi-square statistics (F1 = 199.198). The Eigen value for the first discriminant function is 94.3 percent, which indicates that the first function accounts for 94.3 percent of the variance explained by the function. The discriminant computation was better at predicting the low aesthetic web page (76% correct) than at predicting the other web pages: medium aesthetic web page (53.4% correct), high aesthetic (14.6% correct), high plus music (28.4% correct).
**TABLE 1**
Aesthetics Classification of the Web Pages Used in the Study

<table>
<thead>
<tr>
<th>URL</th>
<th>Aesthetic Classification</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><a href="http://www.dalesshoes.com/">http://www.dalesshoes.com/</a></td>
<td>Low Aesthetics</td>
<td>• Minimal use of color</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The layout of the web page is made up of rectangular shapes. Rectangles tend to be repetitive, boring and annoying.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No use of flash or animation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No music</td>
</tr>
<tr>
<td>[Accessed March 2004]</td>
<td></td>
<td></td>
</tr>
<tr>
<td><a href="http://www.simpledine.com/">http://www.simpledine.com/</a></td>
<td>Medium Aesthetics</td>
<td>• The color themes on the web page are analogous and complimentary</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The web page layout uses dynamic shapes rather than rectangular molds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No use of flash or animation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No music</td>
</tr>
<tr>
<td>[Accessed March 2004]</td>
<td></td>
<td></td>
</tr>
<tr>
<td><a href="http://www.swift3d.com/">http://www.swift3d.com/</a></td>
<td>High Aesthetics</td>
<td>• The color themes on the web page are analogous, split complimentary colors and each area of the site is branded by colors which achieves a dual purpose of looking good with and reinforcing navigation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The web page layout uses dynamic shapes rather than rectangular molds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Brief use of animation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No music</td>
</tr>
<tr>
<td>[Accessed March 2004]</td>
<td></td>
<td></td>
</tr>
<tr>
<td><a href="http://strato.groupninetyfour.com/">http://strato.groupninetyfour.com/</a></td>
<td>Music plus High Aesthetics</td>
<td>• The color themes on the web page are analogous and complimentary</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The web page layout uses dynamic shapes rather than rectangular molds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Elaborate use of flash and animation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Use of slow tempo background music</td>
</tr>
<tr>
<td>[Accessed March 2004]</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Weinman (2003) and http://www.bestflashanimationsite.com/archive/

**TABLE 2**
Assessment Ratings and Attitude Score Towards Searching or Making a Purchase on Each Web Page

<table>
<thead>
<tr>
<th>Aesthetic Classification</th>
<th>Complexity</th>
<th>Legibility</th>
<th>Order</th>
<th>Beauty</th>
<th>Meaningfulness</th>
<th>Comprehension</th>
<th>Attitude Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>4.35*</td>
<td>4.77</td>
<td>4.38</td>
<td>2.64</td>
<td>2.87</td>
<td>4.22</td>
<td>3.39</td>
</tr>
<tr>
<td></td>
<td>(1.94)</td>
<td>(1.79)</td>
<td>(1.89)</td>
<td>(1.44)</td>
<td>(1.61)</td>
<td>(1.87)</td>
<td>(2.03)</td>
</tr>
<tr>
<td>Medium</td>
<td>3.65</td>
<td>5.71</td>
<td>5.56</td>
<td>5.34</td>
<td>4.49</td>
<td>5.43</td>
<td>5.26</td>
</tr>
<tr>
<td></td>
<td>(2.13)</td>
<td>(1.32)</td>
<td>(1.44)</td>
<td>(1.37)</td>
<td>(1.48)</td>
<td>(1.41)</td>
<td>(1.45)</td>
</tr>
<tr>
<td>High</td>
<td>4.23</td>
<td>5.39</td>
<td>5.34</td>
<td>5.42</td>
<td>4.45</td>
<td>4.97</td>
<td>4.85</td>
</tr>
<tr>
<td></td>
<td>(1.84)</td>
<td>(1.42)</td>
<td>(1.52)</td>
<td>(1.36)</td>
<td>(1.49)</td>
<td>(1.56)</td>
<td>(1.90)</td>
</tr>
<tr>
<td>High plus Music</td>
<td>4.30</td>
<td>5.06</td>
<td>4.93</td>
<td>5.38</td>
<td>4.53</td>
<td>4.60</td>
<td>4.84</td>
</tr>
<tr>
<td></td>
<td>(2.23)</td>
<td>(1.90)</td>
<td>(1.89)</td>
<td>(1.99)</td>
<td>(1.99)</td>
<td>(2.07)</td>
<td>(2.19)</td>
</tr>
<tr>
<td>F-Value**</td>
<td>2.62**</td>
<td>6.46</td>
<td>9.57</td>
<td>79.09</td>
<td>24.62</td>
<td>8.92</td>
<td>18.78</td>
</tr>
</tbody>
</table>

*Indicate means. Standard deviations are in parentheses **F-values are significant at .05
CONCLUSION/DISCUSSION

The attitude of the users toward using web pages with low levels of aesthetics is lower compared to attitude toward web pages with higher levels of aesthetics. But increasing the level of aesthetic from medium to high through more color themes, flash and animation did not significantly influence the attitude of the user. Also the use of music was not significant compared to medium aesthetic web pages in terms of influencing the attitude of the user to show a preference for searching for information or making a purchase on an e-commerce web page with music. Further analysis of the predictive power of the measures used in assessing the extent of web page aesthetics indicates that the beauty dimension is weighted heavily to maximize the discrimination between web pages. We also find that most respondents who showed a preference for the low aesthetic web sites reported low evaluation scores for the web sites with a high level of aesthetics plus music while respondents who indicated a preference for the medium-aesthetic web site reported high evaluation scores for the web site with high aesthetics plus music. This finding offers some support for the Bloch et al. (2003) proposition that users with high aesthetic affinity are more likely to prefer web sites with a high level of aesthetics than users with lower affinity for aesthetics. Overall, our results indicate that there is a modulation point where any additional increase in the aesthetic level on an e-commerce web page will result in a decrease in the affective level of the user.

LIMITATIONS/IMPLICATIONS

One limitation of this study is the demographic profile of the respondents used for the study, specifically the average age profile of the respondents which was 23 years. The study can be replicated with non-student samples so as to expand the demographic profile of the respondents. The implications of these findings are far reaching in relation to understanding the aesthetic considerations for the design of e-commerce web pages.

ENDNOTES

1 It is worth noting that work is being done on transmitting at least one additional sense through the Internet (news.bbc.co.uk/1/hi/technology/3502821.stm).
2 http://www.forrester.com/ER/Research/Brief/Excerpt/0,1317,13720,00.html

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MARKET ORIENTATION AND INTERNET-RELATED COGNITIONS:
INSIDE THE MINDS OF SMALL BUSINESS MANAGERS

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SUMMARY

Over the last decade, one of the most important topics in the marketing literature has been the concept of market orientation (Deshpande 1999). Understanding the effects of market orientation — that is, how marketing orientation impacts organizational processes and capabilities that contribute to long-term desired outcomes — is currently, and will continue to be, a significant topic within business. One organizational capability that is creating fundamental changes in the way business is conducted is Internet usage. While there is strong consensus that the Internet is changing business, there is less agreement as to the nature and extent of its influence. What is surprising, given the prominence of market orientation and the Internet in the business literature, is the failure to marry these two streams of research.

We believe this lack of integration is a gap in the existing literature. With market orientation’s focus on obtaining, sharing, and responding to information associated with customers and competitors, and the Internet’s ability to facilitate information acquisition and dissemination as well as market transactions with both internal and external stakeholders, it makes conceptual and managerial sense to explore these two areas in concert. An examination of this market orientation-Internet usage relationship would contribute to understanding the process of how an important strategic orientation — market orientation — translates into a key organizational capability: Internet usage.

The contributions of the present research address the aforementioned gap in the following ways: (1) we develop a conceptual model explaining relationships among market orientation and Internet-related managerial perceptions, (2) we test the model with a sample drawn from multiple companies across multiple industries, and (3) the companies sampled represent small to mid-sized firms. Although marketing-related issues ranked as the number one problem for small to mid-sized businesses (Lowry and Chapman 2000), these firms are underrepresented in market orientation and Internet-related research.

Summarizing significant findings, within the small to mid-sized business context of the present research, a strong market orientation appears related to the development of a behavioral norm with respect to Internet usage, which, in turn, enhances management perceptions of efficacy and benefits related to Internet usage. Efficacy and benefit perceptions positively impact intention to use the Internet in the future.

Given the significance of the owner/manager in the strategic decisions of small firms, these findings “open the window” to managerial thinking that suggests that the motivational influence of market orientation develops from normative considerations contributing to confidence and benefit perceptions tied to the intention to increase the use of the Internet. Such findings help elaborate the cognitive connections managers are making in implementing Day’s (1994) “outside-in” orientation. Making these cognitive linkages explicit is particularly useful in the small business realm given owners/managers often engage in “implicit marketing strategizing” that is less formal and structured than managers’ strategizing in larger firms (Carson 1993).

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WHEN DO FIRMS GO TO WAR: MARKETING MIX REACTIONS TO NEW PRODUCT INTRODUCTIONS

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ABSTRACT

We propose a model in which inter-firm differences in competitive reactions to new products are predicted by the perceived aggressiveness of the new product and by the moderating role of the incumbent firm’s readiness to react. The firm’s readiness to react refers to the extent to which a firm is prepared to respond based on it’s size, market dependence and market orientation. Perceived aggressiveness of a new product refers to the degree to which the incumbent firm views the new entrant as a threat to its own sales and market share.

INTRODUCTION

While many new products are introduced each year in new markets, a considerable number of new product introductions are launched in markets with an existing competitive structure (Hauser and Shugan 1983). For each new product introduction in an existing market, a number of established firms can react to this introduction in order to defend their market positions. This research proposal is intended to test the idea that inter-firm differences in competitive reactions to new product introductions can be predicted by the perceived aggressiveness of the marketing of the new product and by the moderating role of the firm’s readiness to react.

The topic of competitive reactions is of importance to marketing research for several reasons. First, most markets are dynamic in nature and marketing managers are frequently faced with decisions related to competitors’ new products. Second, competitive reactions have a critical role in determining both a firm’s short and long-term survival. Third, advancing the knowledge of competitors’ reactions may also give firms some insights before they decide on introducing a new product into the market. Therefore, a basic understanding of the subject is of great importance.

Previous research on the subject of competitive dynamics and response strategies has largely focused on market size and industry structure as predictors for competitive reaction (Baum and Korn 1996; Gruca et al. 1992). Recent efforts have looked at other variables such as firm characteristics; however there has been no conclusive framework that explains response strategies (Shankar 1999). According to Gatignon, Anderson, and Helesen (1989) there are conflicting theories explaining competitive reactions. Shankar (1997) explains that results from previous empirical research are mixed. He points out that some earlier research findings have predicted accommodation in growing markets while others have predicted retaliation. The conflicting results in the literature could be a result of the limited number of variables (product-market characteristics) that were used to predict the response strategies. Baum and Korn (1996) mentioned, “The aggregate approach to competition fails to recognize the relational nature of competition and rivalry and neglects variations in firm’s strategic interactions that depend on firm specific competitive conditions.” In an attempt to better explain and predict competitive reaction, we extend previous research by looking at two other noteworthy constructs, namely the perceived aggressiveness of the marketing of the new product and the firm’s readiness to react.

The firm’s readiness to react refers to the extent to which a firm is prepared to respond based on a set of firm characteristics that will be discussed at length. These are size, market dependence, and market orientation. Perceived aggressiveness of the marketing of the new product refers to the degree to which the incumbent firm views the new entrant as a threat to its own sales and market share. Gatignon et al. (1989) described three different scenarios that firms can adopt as a reaction to new product introductions. The first is accommodation, which is basically “cutting back” spending on marketing mix variables and allowing some room for the new product. The second option is retaliation, which denotes “fighting back.” When firms retaliate, they counter-attack by increasing their own spending on marketing mix variables. The third alternative is having no response, indicating neither a cutback nor an increase in marketing mix variables spending following a new competitive product introduction.

LITERATURE REVIEW

Theoretical research on reactions to entry has existed for decades, however the subject has been termed a “classical problem” (Robertson 1988). The greater part of the literature has focused on product-market characteristics as the key variable predicting the reactions to new product introductions. More recently, however, scattered research in management, strategy and industrial economics has outlined other variables that might predict competitive reaction, such as entrant characteristics and incumbent characteristics in terms of dominance and leadership (Shankar 1999). However, no unifying framework
has explained how and when firms respond to competitive new entry.

The Industrial Organization literature has laid more emphasis on the structure of the market, from which the behavior of the organization is inferred (Sherer 1980; Weitz 1985). On the other hand, the strategy literature is more involved with the actions of each competitor (Miles 1980). Empirical research in the marketing literature on competitive reactions has tried to come up with measures for rivalry. Early economists attempted that task by incorporating competitive behaviors as independent variables in their models (Gatignon et al. 1989). In his model, Wildt (1974) tried to measure rivalry through a system of equations. In these equations he treated the marketing decisions as endogenous variables.

Further progress in the measurements of the effect of competitive reactions on optimal decisions has been achieved by Lambin et al. (1975) and Hanssens (1980). The latter presented a framework of competitive analysis, which specifically modeled competitive reaction using time-series analysis in addition to standard econometric models. They advanced research on competition to the point that a state of rivalry could be observed and measured (Gatignon et al. 1989). The most important contribution in this topic in the marketing literature was the Defender model by Hauser and Shugan (1983). The Defender model is a descriptive analytical model, which predicts the most favorable (profit-maximizing) response to a new entrant given some pre-specified assumptions about the market such as that the market does not expand due to the new competitive entry and that all firms are operating at a level of marketing expenditures where there is a decreasing returns to scale such that the elasticity of each marketing variable is less than one. The three variables they used in their model were advertising, distribution and pricing. Incumbents had the options of cutting/increasing advertising expenditures, cutting/increasing distribution expenditures and raising or lowering prices. Under certain conditions, some degree of negative reaction could sometimes be profit maximizing. Their explanation of this effect was that the market could become less worthwhile as it crowds with new competitors (Gatignon et al. 1989).

Research in competitive rivalry, however, has been limited by several barriers. According to Chen (1996) most of the research in this field is explanatory or descriptive in nature. He pointed out that constructs in competitive rivalry research are very complex and not easy to operationalize. Another limitation is the little recognition of the link between competitive analysis and prediction of competitors’ behaviors (Chen 1996). Porter (1980) suggested that a relation between competition and behavior prediction should be the primary focus of performing such research.

HYPOTHESES AND RATIONALE

An observed finding in the literature was that different firms react differently to the same event – introduction of a new product. Previous research relevant to this study has tried to explain these differences in terms of the firm’s managerial characteristics. Williamson (1965) attributed reaction differences to the same event to different agendas and values of influential individuals within firms. Day (1984) suggested that the process by which individual perceptions become corporate viewpoints is the main cause of differences in firms’ reactions to the same event. Combining this work with the studies described earlier, we propose that reaction to a new product introduction is a function of the perceived aggressiveness of the marketing of the new product, a relationship moderated by a firm’s readiness to react.

Perceived Aggressiveness of the New Product

New products vary in terms of their hostility (Robertson et al. 1995), and hostile products are more likely to entice more hostile reactions. Heil and Walters (1993) found that new products introductions that send hostile signals into the market would in turn expect stronger competitive reactions. The more the new product is perceived as aggressive in terms of threatening the sales or market share of the responding firm, the more likely that this firm will react aggressively to defend its livelihood. MacMillan, McCaffery, and Van Wijk (1985) suggested that the more the actions of a competitor were seen as an attack on a firm’s existing position, the quicker the firm would respond. In a similar study, Smith et al. (1989) found a positive relationship between perceived threat and shortness of response time.

Such results concerning speed of response suggest that the more a firm perceives a new competing brand as inflicting harm upon its position in the market the more likely will the firm retaliate in order to defend its position in the market. Moreover, an aggressive new product is usually more noticeable than non-aggressive ones and thus a more likely target of retaliation. Robertson et al. (1995) contended that the reaction might derive more from an attribution of hostility than from the likely consequences. The link between the aggressiveness of new product introductions and the strength of the response has been well documented in the literature. Firms that aggressively pursue the introduction of a new product could expect a stronger retaliation from incumbents. In some situations the fear of forceful retaliation may result in more modest introduction spending which could act as a barrier to entry (Scherer and Ross 1990). The previous discussion leads to the following hypothesis:

H1: The higher the perceived aggressiveness of the new product, the higher the: (a) speed of response of the
A competitor’s perception of the aggressiveness of the new product may depend on the new product’s marketing strategy. In such cases where the new product introduction is associated with a heavy spending budget, the reactor might perceive the new product as more aggressive. Lynn (1987) contended that a new entrant into the market may increase its spending going into a market in order to show strength. Initial spending could be measured in comparison to the new entrant’s spending on similar products in its own product portfolio or to a competitor’s spending for a similar product. Thus, the following hypothesis may be developed:

H2: The higher the relative spending of an entrant (a) compared to its competitor’s spending for a similar product, (b) compared to its own spending for similar products in its own product portfolio, the higher the perceived aggressiveness of the new product

Another factor that might lead to the perception of a brand as a more aggressive one is the level of investment of the entrant in that particular market. The more the firm introducing the new product is investing in resources and fixed assets that are used in its production and sale, the more its perceived persistence to gain market share. Consequently, this situation will lead to a higher perception of aggression. Shankar (1999) suggested that by having large investments in the new product, the entrant is sending a commitment signal to the competitors in the market. The logic behind this argument is that the higher the investment, the higher the commitment and the higher the commitment the more likely, the new product will be aggressive in order to gain market share and redeem the cost of the investment.

H3: The higher the investments in fixed assets of the new product, the more likely is the new product to be perceived as an aggressive product

Readiness to React

The firm’s readiness to react refers to the extent to which a firm is prepared to respond to the threat of a new product introduction. A firm could perceive a new product introduction as a threat but that does not necessarily mean that the firm is prepared to react. Readiness to react is a construct that is composed of several variables. These variables are size, market dependence, and market orientation. We anticipate that the firm’s readiness to react moderates the relationship between the perception of the new product aggressiveness and the type of reaction. A firm that is not ready to react might not be able to execute the required reaction.

H4: A firm’s readiness to react moderates the relationship between perceived aggressiveness of the new product and the type of competitive reaction in the following manner:

H4A: When there is a high-perceived aggressiveness of the new product and a high readiness to react, the incumbent firm will retaliate against a new product introduction by increasing overall spending on marketing mix variables and responding within a shorter period time compared to firms with low readiness to react.

H4B: When there is a high-perceived aggressiveness of the new product and a low readiness to react, the incumbent firm will most likely accommodate to the new product by decreasing overall spending on marketing mix variables and responding within a longer time period compared to firms with high readiness to react.

Size

Size is considered to be a fair predictor of a firm’s readiness to react. Various researchers have pointed out the advantages that larger firms enjoy. Ali (1994) suggested that larger firms have many advantages over smaller ones in terms of their access to financial resources and their ability to spread risk widely. Larger firms have much larger opportunities in reacting to new product introductions. They have an enormous pool of financial and technical capabilities (Chandy and Tellis 2000) to exploit. The deep pockets of larger firms enable them to draw the required resources in order to react to a new product introduction. A smaller sized firm might not have the readiness to react in terms of not being able to spend more.

Size not only has an effect in terms resources but also facilitates response because of some intangible assets. Woodruff (1975) contended that larger organizations have advantages beyond their tangible resources because of both their superior image and reputation in the minds of consumers. Robertson and Gatignon (1986) also suggested that larger firms are more likely to have better vertical coordination activities with customers. This argument leads to the following hypothesis:

H5: The larger the size of the firm, the more is its readiness to react.

Market Dependence

Market dependence refers to how much a respondent’s sales is dependent on that particular product category. It represents the relative sales generated from a particular product category compared to sales from all other product...
categories. Market dependence is expected to be highly correlated to a firm’s level of fixed investment in the product category. We anticipate that the higher the level of fixed commitments, the greater the propensity to react to new product introductions. Chen, Smith, and Grimm (1992) found that market dependence is closely associated with competitive response. Dixit (1980) has shown that investment in sunk capital increases the motivation for an incumbent to take a more competitive stance toward potential competitors. The logic behind market dependence is that a firm would be more ready and willing to react when it is dependent on sales from that particular product category or market. Chen and Miller (1994) concluded that there are a higher number of competitive responses when the new product pertains to markets that are especially valued by the potential respondent. This discussion leads to the following hypothesis:

**H6:** The higher the level of market dependence on the product category, the more is a firm’s readiness to react.

**Market Orientation**

Market orientation is one of the most important concepts in marketing. We anticipate that market oriented firms will have a higher ability to react to new product introductions. According to Jaworski and Kohli (1993) market orientation refers to the organization wide generation of market intelligence, dissemination of the intelligence across departments and organization wide responsiveness to it. Thus it is expected that a market-oriented firm would be more ready to react to a new product introduction.

**H7:** The higher the level of a firm’s market orientation, the more is a it’s readiness to react.

**METHOD**

**Data Collection**

Both primary and secondary data will be collected. Secondary data will be collected through three different sources. The first source of secondary data is “Scott Levin” a pharmaceutical market research firm. Scott Levin provides data regarding the amount and timing of spending on marketing mix variables, sales per category and also advertising budget and investment of new entrants. The second source of secondary data will be the electronic orange book. It offers a searchable database of all FDA approved drug products. It also provides the exact number of competitors in every market and the date each competitor has entered the market. The third source will be COMPUSTAT where information about firm size, annual sales, profits, assets and earnings before interest and tax can be found. The two variables that will be measured using primary data will be market orientation and perceived aggressiveness of the new product.

Using the business unit as the unit of analysis and data from a single industry is considered an advantage, as there will not be any cross-industry factors to control for in terms of heterogeneity of estimates. The data will include information on new product introductions and competitors’ responses over a 5-year period. The data will also consist of monthly sales and advertising, promotion, pricing, and sales force expenditure.

**Hypothesis Testing**

A set of multiple-item measures will be developed for each construct. The pilot study and pre-test phase will help refine the measures and the variables that constitute the constructs. We will use the pilot study to help finalize the list of variables of interest, the length of the questionnaire and the question wording. Regression analysis will be used to study the relationship between the type of competitive reaction and the set of predictor variables.

**Instruments**

Complementing survey data with secondary data sources (e.g., PIMS) is the dominant research paradigm in the literature on competitive reaction. A questionnaire will be developed in order to capture the variables of market orientation and new product aggressiveness. The questionnaire will be developed using a pilot study and a mail pre-test. This will allow us to refine our measures and prevent missing any important variables. In addition guidance will be sought from previous research in terms of variables to be included in the questionnaire.

**Measures**

**Size:** firm size signifies the market power of the firm. Following previous research we operationalize firm size through a combination of several measures including annual sales, profits, assets, earnings before interest, and taxes (EBIT). Size will be measured as a weighted average of these variables.

**Market dependence:** Market dependence will be measured as the amount of sales of the respondent firm that are generated from a particular product category divided by sales from all other product categories that the firm is operating in.

**Market orientation:** Following previous research, market orientation will be measured by a 32-item scale. These items will measure market intelligence generation, dissemination the responsiveness of the firm to this intelligence and finally the actual implementation the implementation of the responsiveness plans.
Readiness to react: Readiness to react will be measured as an equally weighted average of size, market dependence, and market orientation.

Advertising budget and investment: Will be measured using secondary data.

Perceived aggressiveness: A mail questionnaire will be sent to the responsible marketing managers in firms included in the sample of the pharmaceutical firms. Following previous research, this construct will be measured on a 7 point Likert scale.

Competitive reaction: A firm’s reaction will be measured in the number of days before a response takes place and the overall amount of spending on marketing mix variables after a competitor has introduced a new product. A retaliation strategy would entail higher spending on one or more of the marketing mix variables and a shorter time period before response. An accommodation strategy would entail an overall cutting back on spending on marketing mix variables and a longer time period before response.

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EFFECTIVE MARKETING MANAGEMENT OF BRAND EXTENSIONS: A PRELIMINARY INVESTIGATION.

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ABSTRACT

Faced with intense competition in the market and high costs of brand development, firms try to exploit their brands by developing brand extensions. This paper uses case studies and tries to determine which marketing strategies are more effective for successful brand extensions in FMCG markets.

INTRODUCTION

Today’s environment is characterized by high competition, rapidly changing customer needs and small product life cycles. In this context, firms need to exploit their brands as much as possible, especially taking into account that cost estimates for developing a new brand range from $80–150 million (Aaker and Keller 1990; Tauber 1988). Successful brand extensions provide economic savings (Kapferer 1994; Gürhan-Canli and Maheswaran 1998). However, an unsuccessful extension can destroy the parent brand or at best diminish its reliability and consumer loyalty by creating negative perceptions that are difficult to reverse (Aaker 1996). So, it becomes clear that a major problem for firms is how to develop successful brand extensions. This paper aims to determine which marketing strategies are effective for successful brand extensions and is structured as follows. First we review the literature on marketing strategies related to successful brand extensions, then we describe the research approach selected and the research design followed; thirdly we present the findings, and finally we discuss findings and make suggestions for future research.

LITERATURE REVIEW

Due to immense advertising costs and intense competition, most firms today strive to stretch their brands as far as possible in order to exploit their brand investment. Brand leveraging or extension, remains one of the most profitable and frequently employed marketing strategies (Lane 2000). Brand extension has been called the guiding strategy of product planners in the 1980’s and has been the source of strategic growth of many firms (Tauber 1988). The benefits of successful extensions are significant and include savings in new product introduction and reduced risk of new product failure (Kapferer 1994; Gürhan-Canli and Maheswaran 1998); easier acceptance of the new product by retailers and consumers (Keller and Aaker 1992); decreased distribution costs and increased efficiency of promotional expenditures (Morein 1975). However, not all extensions are successful. A number of researchers have expressed concern that extension failure may lead to brand image dilution or negative reciprocity effects (Keller and Aaker 1992; Park et al. 1991; Romeo 1991).

As a result, determining why an extension may be successful is a crucial problem firms face today. Research on brand extensions is still at a very early age. Previous research includes mainly experimental studies that refer to the effect of various factors on: (a) consumers’ attitude towards extensions (fit perceptions between products or brands); (b) purchase intentions; and (c) choice and repeat purchase and also look at the reciprocal effects of the extension on the parent brand or the extension category. These dimensions will determine whether the extension will achieve a satisfactory market share, enhance the image and sales of the parent brand, survive for a lot of years and create loyal customers. In other words, research is trying to determine which factors affect the success and failure of extensions.

Aaker and Keller (1990) show that the success of an extension depends on the types of associations consumers have for the brand, as well as other factors such as the relatedness of the brand and the new category and the credibility of the company to make the new product. Park et al. (1991) argue that product feature similarity and brand concept consistency between brand and extensions influence consumers’ evaluations, purchase intentions and sales of extensions. Category similarity and fit between brand and extension also influence consumers’ evaluations (Aaker and Keller 1990; Bhat and Reddy 2001; Boush and Loken 1991; Keller and Aaker 1992; Klink and Smith 2001; Bottomley and Holden 2001). Other factors influencing extension evaluation include the number, success and similarity of intervening brand extensions (brand breadth) (Keller and Aaker 1992; Boush and Loken 1991); the perceived quality of the core brand (Keller and Aaker 1992; Bottomley and Holden 2001); the quality variance of the product portfolio (Dacin and Smith 1994); the use of sequential versus radical brand extensions (Keller and Aaker 1992); exposure (time, length, times) (Lane 2000; Klink and Smith 2001); information content (Lane 2000; Sheinin 1998); information amount provided (Klink and Smith 2001; McCarthy et al. 2001).
measures related to positive consumer attitude towards parent brand and the extension (Reddy et al. 1994), or the market share of the parent brand (Morrin 1999) and distributor activity (Morrin 1999). (Ahluwalia and Gürhan-Canli 2000); advertising and promotional support at time of launch (Reddy et al. 1994), and various consumer characteristics including motivation (Gürhan-Canli and Maheswaran 1998), expertise (Broniarczyk and Alba 1994), mood (Barone et al. 2000) and innovativeness (Klink and Smith 2001).

Furthermore, researchers have argued that there are also certain factors that affect the actual behavior of consumers, namely the decision to try the product and repeat the purchase. Such factors include the late introduction of an extension in the category’s life cycle (Sullivan 1992); experience with the parent brand and category (Swaminathan and Reddy 2001); the strength of the parent brand (Reddy et al. 1994), and the perceived firm competency with the product (Aaker and Keller 1990).

Moreover, many studies have focused on the reciprocal effects of brand extensions on the parent brand (dilution or enhancement). Several authors raise the concern that repeated extensions, particularly into loosely related product categories, may weaken a brand (Loken and Roedder John 1993). Kimrey (1984) presents evidence that damage to the brand’s established products will be minimized if categories are chosen properly whereas Romeo (1991) argues that when categories are similar, negative effects on parent brands are higher. Also, it is suggested that the parent brand’s reputation could be damaged from the extended product’s failure, if the positioning of the extended product is inconsistent with the positioning of the parent brand, or if too many products are extended from a given brand name (John and Loken 1990). Certain researchers suggest that dilution effects are more likely for close (vs. far) extensions whereas others support the notion that dilution occurs regardless of extension category or does not occur at all (Keller and Aaker 1992; Lane and Jacobson 1997; Loken and John 1993; Romeo 1991). Finally, the effect of various other factors on dilution and enhancement of parent brands has been investigated including consumer motivation (Gürhan-Canli and Maheswaran 1998) and expertise (Morrin 1999; Sheinin 2000); the extent to which the extension is typical of the family brand (the number of consistent attributes – brand extension typicality) (Bush and Loken 1991; Loken and John 1993); the dominance of the parent brand or its status as a flagship product (John, Loken, and Joiner 1998); the accessibility of extension information (Ahlulwalia and Gürhan-Canli 2000); advertising exposure (Morrin 1999) and distributor activity (Morrin 1999).

Furthermore, brand extension success has been measured by the years of survival of the parent brand and the extension (Sullivan 1992); or the market share of the parent brand and the extension (Reddy et al. 1994), measures related to positive consumer attitude towards the extension, trial and repeat purchase of the extension, and increase in parent brand sales. These are the three important factors that determine brand extension success. This study looks at the marketing strategies used by fast moving consumer goods firms and aims to explore which of these strategies may lead to brand extension success. The unit of analysis is the brand extension. As a result, we may look at multiple extensions within the same firm in order to observe differences in marketing strategies.

RESEARCH APPROACH

This study is exploratory in nature suggesting propositions to be tested in subsequent research. The aim is to develop theory regarding which marketing strategies are related to successful brand extensions. With this goal in mind, a qualitative study was conducted based on case studies. The theory building approach was selected because little is known about the phenomenon under study and current knowledge is inadequate because it has little empirical substantiation. Based on this approach, the case study data were used as a platform for theory development following the process proposed by Eisenhardt (1989). This process includes the following steps:

1. Define the research question and a priori constructs.
2. Select a theoretical sample in order to focus on theoretically useful cases.
3. Use multiple data collection methods to strengthen theory by triangulating evidence.
4. Within-case analysis and cross-case pattern search.
5. Tabulate evidence for each construct and use replication logic across cases.
6. Compare to existing literature (similar or conflicting).

RESEARCH DESIGN

Research Question

The research question addressed in this study concerns the types of marketing strategies that may help firms develop more successful brand extensions. Also, we specified a priori the construct of brand extension success. A successful extension is the one that provided the company with a satisfactory market share in the new product category, enhanced the image and sales of the parent brand, survived for many years and created loyal customers. The categorization of success/failure was based on the answers of the people interviewed within each company and on the results reported in related articles and reports.
The Sample

A theoretical sample was selected in order to focus on theoretically useful cases. Dimensional, purposive sampling was used (Monette and Dejong 1990) to select cases using two dimensions. One dimension was the type of market selected, fast moving consumer goods (FMCG), due to the special value of brand extensions for products with small life cycles and mass-market appeal. So the population used for selecting the sample was FMCG companies that have developed at least one brand extension within the last five years. Also, the second dimension used concerned the type of industry of each sample company. We took care to select companies from different industries including personal care products, cereals, and coffee in order to explore the differences and similarities in strategies used for brand extensions. In total, we used 7 cases of extensions from 6 firms (4 successful and 3 unsuccessful). We looked at both successful and unsuccessful extensions in order to observe similarities and differences in marketing strategies. The number of cases selected is within the accepted limit for meaningful case study research as postulated by Yin (1984) and Eisenhardt (1989).

Data Collection

Multiple data collection methods were used including desk research and in-depth interviews in order to strengthen theory by triangulating evidence. Desk research involved a study of internal company documents related to brand extensions, and of any advertisements, company reports or articles related to the company’s extensions. Interviews were conducted with key informants from each company (marketing managers, brand managers). The questionnaire included open-ended questions in order to gain in-depth insights on the marketing strategies used by each firm in each extension case.

Data Analysis and Evidence Tabulation

Data analysis was conducted first at a within-case level and then across-cases using thematic content analysis (Holsti 1969). Using an inductive approach, i.e., moving from data to the development of theory (Kerlinger 1986), we first analyzed each case separately trying to describe in detail the types of strategies used and then we continued with cross-case analysis where the case study data was screened for cross-case patterns (similarities and differences) related to the use of specific marketing strategies. Data was tabulated for each construct analyzed in order to spot cross-case patterns and develop propositions. Tables 1 and 2 show the details within-case and cross-case data analysis.

Use Replication Logic to Develop Theory and Compare to Existing Literature

Data analysis provided many insights on which marketing strategies are related to successful brand extensions. Based on these findings and following replication logic we formulated tentative propositions for further research. Also, the findings of the study were compared with existing literature to enhance internal validity and generalizability. In particular, the following results can be drawn from case data:

1. Extension Positioning

Positioning is a central issue for a successful extension. In the successful cases analyzed, the extension’s positioning is consistent with the parent brand. This is expected because if the parent brand has already created a certain image in the market, it is difficult for consumers to accept something totally different under the same brand. As a result, we can propose that:

P1: A brand extension is likely to be more successful when the original brand and the extension are consistent in positioning.

2. The Stretching of Brand Attributes

Case results show that when the extensions were considered successful, one or more attributes of the parent brand were stretched to the extension. The brand associations made by consumers are related to the brand’s main attributes. As a result, it is more difficult to accept a brand extension that has a totally different concept than the parent brand. This agrees with Park et al. (1991) who argue that brand concept consistency influence consumer evaluations and purchase intentions and is consistent with the conclusions of Bush and Loken (1991) and Loken and John (1993) that attribute consistency (the extent to which the brand is typical of family brand) of parent brand and extension influence consumer evaluations. Finally, the stretching of attributes means that brand specific associations related to the parent brand are now moved to the extension category and this makes consumer acceptance easier. This agrees with the conclusions of Broniarczyk and Alba (1994). Therefore we can propose that:

P2: A brand extension may be more successful when one or more attributes or benefits of the original brand are extended.

3. Extension Quality and Development

Case results show that when the developed extension was a high quality product based on an innovative devel-
TABLE 1  
Within – Case Analysis: Marketing Strategies Used in Each Case Studied

<table>
<thead>
<tr>
<th>Brand name- Extension</th>
<th>Positioning</th>
<th>Branding Strategy</th>
<th>Product</th>
<th>Price</th>
<th>Place</th>
<th>Promotion</th>
<th>Firm Competency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palmolive – shampoos</td>
<td>In a low return segment &amp; inconsistent with parent brand</td>
<td>May be harmed by extensions outside the bath and shower category (dish cleaning) due to dilution of brand association with soap. No specific attribute of brand is stretched – low brand concept consistency. High category similarity.</td>
<td>Limited innovation in new formulas, internal sources used for NPD</td>
<td>Low prices</td>
<td>Limited distribution. Unfavorable shelf positions.</td>
<td>Lack of innovation in packaging. Low marketing support.</td>
<td>No specific knowledge of hair market</td>
</tr>
<tr>
<td>Dove – shampoos</td>
<td>In a neglected segment &amp; in the high return market consistent with parent brand</td>
<td>Sequential extensions into different markets. They moved from soap bar to sensitive or exfoliating bar (core range extensions) to shower gel (other personal washing products) to shampoo, deodorant, and moisturizers (indirect stretch into more distant markets – hair care). Extensions are based on the stretch of two strong attributes of the original product, the benefits of mild cleansing and moisture (high brand concept consistency). Strong brand personality built by promotion</td>
<td>R&amp;D focus Innovative product development (new formulas)</td>
<td>Competitive pricing</td>
<td>Extensive distribution Good shelf space</td>
<td>Strong promotional activities based on a consistent communications campaign with the use of customer testimonials. Innovative packaging</td>
<td>Global hair expertise of firm (knowledge of market)</td>
</tr>
<tr>
<td>BIC – razors</td>
<td>A high quality product at an affordable price</td>
<td>Strong brand personality around the world The disposable attribute was extended</td>
<td>Constant innovation in shavers Development of new product, the one piece disposable shaver Customer initiated idea High quality product Well-built NPD process</td>
<td>Competitive pricing</td>
<td>Expanded distribution network Fast &amp; organized distribution Good shelf position</td>
<td>Big promotional campaign Market research in major market of number 1 competitor</td>
<td>Firm understands and dominates the market of introduction</td>
</tr>
<tr>
<td>Gillette – lighters</td>
<td>A moderate quality product at a high price</td>
<td>Highly stretched brand No specific attribute is stretched</td>
<td>Defensive NPD approach (respond to competitor’s innovation)</td>
<td>High price</td>
<td>Limited distribution</td>
<td>Limited promotion Unfavorable store position</td>
<td>No firm experience with market</td>
</tr>
</tbody>
</table>

Development process, then it was more successful. The unsuccessful extensions were the ones that did not stretch the quality of their core brands and were not considered innovative. This agrees with the fact that the perceived quality of the core brand (Keller and Aaker 1992) and the quality variance of the product portfolio (Dacin and Smith
1994) influence consumer evaluations of extensions. Therefore, we propose that:

P3: A brand extension may be more successful when it has a quality consistent with the parent brand and when the developing company is oriented towards innovation.

4. Extension Pricing

The issue of pricing is also something that was shown to be important for extensions. The cases of failures were priced either higher or lower than competitors. In contrast, all the successful extensions were competitively priced at a level that offers value for money to the consumer. As a result, we can propose that:

P4: A brand extension may be more successful when it is competitively priced.

5. Extension Distribution and Retail Support

The quality of distribution and the acceptance and promotion by distributors seemed to be important according to case results. All successful extensions enjoyed fast and extensive distribution and good placement in the stores’ shelves. This enhances product accessibility to consumers and induces trial. Therefore, we argue that:

P5: A brand extension may be more successful when it is distributed extensively and occupies a good shelf position.

6. Extension Promotion

Promotion seems to play a pivotal role in extension success. The successful extensions were backed up by a strong, organized promotional effort. The communication effort provided consumers with knowledge concerning the extension and helped them evaluate it in relation to the parent brand. These results agree with the conclusions of other researchers that the time, length and times of exposure to advertising messages, the message content as well as the level of marketing support at the time of launch influence the success of extensions (Lane 2000; Klink and Smith 2001; Reddy et al. 1994). Consequently, we propose that:

P6: A brand extension may be more successful when it is supported by a strong promotional effort at the time of launch.

7. Firm Experience

Case data show that extensions were more successful when the firm had experience and competencies in the parent brand and extension markets. This agrees with the fact that experience with the parent brand and category (Swaminathan and Reddy 2001) and the perceived firm competency with the product (Aaker and Keller 1990) influence trial and repeat purchase of extensions. Therefore, we propose that:

P7: A brand extension may be more successful when the developing firm has experience and competencies in the parent brand and extension markets.

DISCUSSION

Results suggest that the success of brand extensions is related to a set of marketing strategies used by the firm. These include consistent positioning with the parent brand; a branding strategy characterized by high brand concept consistency; effective management of the four Ps, and firm competency in the parent brand and extension markets. Some of these strategies are also important for other types of new product launches. However, the consistency that is required with the parent brand and the savings expected from the extension’s introduction make the launch of the extension different and difficult. Also, the risk of harming the parent brand places even more emphasis on the success of the extension. This risk together with the need to support the product at the retail level and the requirement for extensive promotion at the time of launch raise a question as to whether an extension actually provides savings over a new brand launch and to what extent. Is this true for all markets or not? Also, are there any distinctive differences in the factors that affect suc-
cess of extensions between industries and why? These are the questions that we need to address in the future.

FUTURE RESEARCH

This study extends findings on the marketing strategies that are related to successful brand extensions. However, it is highly exploratory and limited to a small number of cases. The propositions developed in this paper are going to be tested more conclusively in a second stage of research involving a survey based on a structured questionnaire and a big sample of brand extensions developed by FMCG companies in various industries.

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THE RELATIONSHIPS AMONG MARKET INFORMATION MANAGEMENT, NEW PRODUCT DEVELOPMENT CAPABILITIES, AND FIRM PERFORMANCE: AN EMPIRICAL EXAMINATION*  

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SUMMARY

The resource based view of the firm and the capabilities based literature has become a popular approach to investigating firm behavior. Recently, the focus has shifted from possession of resources to resource deployment processes known as capabilities to aid in understanding how firms develop and maintain long term competitive advantage. Among the capabilities that are proposed as important to “market-driven” firms are capabilities that span the gap between the firm and its market (Day 1994). Two capabilities that are frequently cited as being important to the long term success of firms are capabilities for developing an understanding about the market place (e.g., Day 1994; Hunt and Morgan 1996) and capabilities for leveraging this knowledge to produce new products (both goods and services) (e.g., Nonaka and Takeuchi 1995). In this paper; first, we empirically investigate the effect of market information management capabilities (MIM) and new product development capabilities (NPD) and their effect on three different aspects of firm performance, customer satisfaction, new product effectiveness and financial performance. Second, we investigate the impact of the integration of these two firm capabilities on the three dimensions of performance. Third, through the use of an interaction approach (e.g., Ping 1996) to SEM, we investigate the impact of the main and interaction effects on all three dimensions of performance simultaneously.

Research Framework

MIM Capabilities deal with the processes firms use for gathering and sharing information about customers, competitors, and channel members. This ability to gather information has been seen as an important capability of a market driven firm (Day 1994; Grant 1996; Slater and Narver 1995; Baker Sinkula 1999). Following the extant literature, we hypothesize that; firms with higher levels of market information management capabilities will have higher levels of new product effectiveness, customer satisfaction, and financial performance.

New Product Development Capabilities deal with the ability of the firm to develop new products that are in tune with the customers’ needs. NPD capabilities leverage the market sensing capabilities and R&D investment of the firm and play an important role in determining the outcome of this effort (Day 1994; Slater and Narver 1995; Song and Montoya-Weiss 1998; DeCarolis and Deeds 1999). Based on previous research, we hypothesize that: Firms with higher levels of NPD capabilities will have higher levels of new product effectiveness, higher levels of customer satisfaction and superior financial performance.

Previous research has shown that information sharing between technical and the marketing groups is important to successful new product development, customer satisfaction and firm performance (Cooper 1979; Gupta et al. 1986; Nonaka and Takeuchi 1995). Therefore we hypothesize that: Firms with higher degrees of integration between market information management capabilities and new product development capabilities will have higher levels of new product effectiveness, higher customer satisfaction and superior financial performance.

Method, Data Collection, and Analysis

To gain insights concerning relevant MIM and NPD capabilities in practice a combination of 63 in-depth interviews and focus groups were conducted with senior managers. In addition to the MIM and NPD capabilities measures, we used three variables to capture performance: new product development effectiveness, customer satisfaction, and financial performance. To control for industry effects we measured size and environmental turbulence. We collected primary data via a mail survey of top marketing executives of 748 U.S. firms. We collected 247 useable (33% response rate) surveys from the mailing. Confirmatory factor analysis (CFAs) was used to assess the measurement properties of the latent variables. The constructs showed excellent psychometric properties and were submitted to a full information structural equation modeling (SEM) approach.

Results and Conclusions

Results of the SEM tests of both the direct and interaction terms demonstrated a good fit for the model. MIM was not found to be a significant predictor of NPD
effectiveness but was related to customer satisfaction levels and financial performance. NPD capabilities were determined to be related to customer satisfaction and financial performance. However, NPD capabilities were not related to new product effectiveness. Testing the interaction of NPD and MIM capabilities demonstrated a significant relationship between the interaction term and customer satisfaction. The interaction term did not show a significant impact on NPD effectiveness and financial performance. The control variables did not make a great impact on the outcome variables, except for market turbulence’s effect on new product effectiveness. Finally, size was negatively and significantly related to customer satisfaction, a finding which has been noted in previous studies (e.g., Fornell et al. 1996). References are available upon request.

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WOW-ING THE CUSTOMERS TO WIN THEM BACK

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SUMMARY

Customer reacquisition is a fairly new aspect of CRM that provides firms with some obvious benefits such as (i) lower acquisition costs compared to new prospect recruitment, (ii) ability to identify service improvement opportunities by tracking the defected customers’ reasons for leaving, (iii) increase capability to detect at-risk customers by learning from defected customers, and (iv) limit negative word of mouth from switchers and increase positive word of mouth through those that are reacquired (Reichheld 1996; Stauss and Friege 1999). Despite the increasing popularity among the practitioners, the newfound aspect of CRM has attracted only a few scholars (e.g., Stauss and Friege 1999; Thomas, Blattberg, and Fox 2004). Consequently, the objective of this paper is to develop an empirical model for the perceived value of a win-back offer, identify its determinants, and assess its impact on intentions to return back. The framework draws on the contemporary developments in services marketing such as co-creation of value and relationships (Vargo and Lusch 2004) as well as the resource-advantage theory of Hunt and Morgan (1995).

Determinants of WOW

In identifying the determinants of WOW, we referred to the supposition that marketing and service relationships depend upon, economic, resource, and social contents of relationship (Morgan 1998; Gwinner, Gremler, and Bitner 1998). Therefore this study proposes to use these categorizations to characterize the elements of the “win-back” offer. Economic value refers to financial costs created by the win-back offer, i.e., the price. Resource value refers to all functional service benefits created by the win-back offer including the perceived quality, convenience, and variety provided by the service features. Finally, social value refers to the relational benefits provided by the win-back offer – more specifically, trust in service provider.

H2: Economic value is positively associated with WOW.
H3: Resource value is positively associated with WOW.
H4: Social value is positively associated with WOW.
H5a,b: The reason for defection moderates the relationship between WOW determinants and WOW such that the strength of positive relationship between economic (resource) value will increase when the reason for defection is to obtain an economic (resource) value.
H5c: The positive relationship between perceived social value and WOW will be stronger for defected customers that originally switched to receive better service benefits compared to those originally switched to receive lower prices.

Experimental Design and Procedure

In order to test the hypotheses a 2 x 2 x 2 x 2 between groups, quasi-experimental design was employed (Cook and Campbell 1979), with two levels of price advantage (high economic value and low economic value), two levels of perceived service benefit (high resource value and low resource value), two levels of trust in service provider (high social value and low social value), and two reasons for original switching (lower price and better service features). Subjects were first asked to read a scenario describing a situation in which a customer switched from one automobile maintenance and repair service provider (ABC) to another (XYZ) and subsequently offered a deal to come back to ABC.
Results

A 2 x 2 x 2 ANOVA was run with WOW as the dependent variable and price advantage, service benefits, trust, and original switching reason as the independent variables. All main effects and interactions were tested for significance. The overall model was significant ($F(15, 446) = 21.93, p < .001$) and explained 41 percent of variance in WOW. All main effects were proved to be significant, whereas the interaction effects were not supported.

Conclusion

In general, these findings indicate that it is the perceived overall value of the win-back offer that lures the customers back rather than mere low price. Moreover, perceptions of price advantage as well as service benefits and trust in service provider contribute to the overall perceived value of the win-back offer. Contrary to expectations, we found that the original switching reason does not have a significant impact on the relationships between price advantage and WOW or between trust and WOW. The framework developed in this study can provide the first step towards understanding the elements needed to effectively managing re-acquisition efforts and assess the value of regained customers. References available upon request.

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TARGETS OF COMMITMENT AND LOYALTY-RELATED OUTCOMES
IN A SERVICE SETTING

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SUMMARY

This paper describes an empirical study (n = 348) of service provider-consumer relationships across a variety of different services. Using confirmatory factor analyses and structural equation modeling, this research provides empirical support for recent marketing studies that have suggested that there are multiple relationships in a service provider-consumer relationship (Macintosh 2002). Not only do consumers perceive these relationships to be different, but they also perceive these relationships to differ on a key relationship variable, commitment.

One can conceptualize commitment to a service organization as consisting of several layers. The first layer represents those factors that create commitment to the service organization on its own (i.e., service company commitment) and may include some aspects of service quality. The second layer represents the commitment that the consumer feels towards the individual service provider (i.e., professional commitment) and may also include some aspects of service quality. The third layer represents the interpersonal commitment (i.e., personal commitment) that develops between the consumer and the individual service provider and may include aspects of relationship quality such as friendship. Firms can develop their consumers’ service company commitment as described above (i.e., focusing on the antecedents of service company commitment such as service quality) or by adding layers of other commitments. Thus service company commitment can be built by focusing on service quality, encouraging employees to interact well with consumers (thereby developing professional commitment), or encouraging and supporting personal relationships between service providers and consumers (thereby developing personal commitment).

This research also shows that loyalty-related outcomes such as repurchase intentions, strength of preference, or willingness to pay more are predicted by different targets of commitment in a service provider-consumer relationship. Commitment to the organization or brand is predictive of repurchase intentions, strength of preference, and willingness to pay more. Therefore, service firms can develop these manifestations of service loyalty by providing high levels of service quality and by developing commitment to the service company. Professional commitment and personal commitment have only indirect effects on repurchase intentions and strength of preference. At the same time, however, a significant portion of service company commitment is developed from a consumer’s commitment to the individual service provider. This underscores the importance of the relationship that develops between service provider and consumer and suggests that service firms are well-advised to train their employees on strategies to develop the relationship.

An interesting finding in this study is that consumers are willing to pay more for the service when professional commitment is high, but are less willing to pay more for the service when personal commitment is high. This, at first seems counter-intuitive; however, further examination of the relationships between variables helps to shed light on this issue. First, professional commitment is significantly predicted by service quality. Thus, consumers become committed to service employees largely because of the quality of service they provide; whereas, personal commitment likely develops because of interpersonal communication and interaction (Fehr 1996). Thus, consumers are willing to pay more for service quality, but are expecting a deal from friends, similar to the economic benefits of commercial friendships advocated by Price and Arnould (1999). So, while marketers suggest that developing relationships with customers results in lower costs to serve, this research suggests that developing close relationships (i.e., friendships) with customers may result in lower margins.

In conclusion, the concept of commitment remains an important, but complicated construct for services marketers to explore. By explicitly recognizing the multiple targets of commitment in a service provider-consumer relationship, marketers may be better able to understand service loyalty. This research provided a useful first step on this journey, by showing that each target of commitment in a service provider-consumer relationship is responsible for different loyalty-related outcomes.
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CUSTOMER RELATIONSHIP STRENGTH IN SERVICES SELLING:
CONSTRUCT DEFINITION, SCALE DEVELOPMENT,
AND VALIDATION

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SUMMARY

Customer relationship has become particularly important in services selling due to the unique characteristics of both relationships and services (e.g., Crosby, Evans, and Cowles 1990; Parasuraman, Zeithaml, and Berry 1985). Customer relationship strength is a construct that is intended to describe the customer relationship property of being strong. This article defines it as the extent to which the partners are bound in a customer relationship, and reflects the ability of the relationship to resist both internal and external challenges.

In the past, customer satisfaction, commitment and relationship quality were the main constructs used to describe customer relationship properties, but neither of them alone is valid enough to capture the relationship property of being strong. Although relationship strength was introduced into marketing literature recently, “Strength” as a concept has a long history, from cohesive-ness in physics to group cohesiveness in social psychology and tie strength in social networking, which can now be extended to relationship strength in marketing. Researchers have completed some studies of customer relationship strength (Barbara, Donaldson, and Tooke 2000; Hausman 2001; Bhagat and Williams 2002), however some important research questions have not been clearly investigated. For example, why should we use the new construct of customer relationship strength? What is its meaning (i.e., definition and dimensionality)? How do we measure it? This study aims to address the above questions.

This study has formulated a comprehensive definition and a tri-dimension measurement model for customer relationship strength. The proposed dimensions are affective strength, cognitive strength and conative strength. Affective strength is defined as the relational partners emotional attachment to the ongoing relationship. Cognitive strength refers the relational partners belief that the ongoing relationship is worthy of being maintained from the economic perspective. And Conative strength is defined as a relational partners propensity to discontinue the ongoing relationship given various inducements to do so. This model is parsimonious, but it integrates almost all the dimensions found in previous measurement models for relationship strength.

After conceptualizing customer relationship strength, we developed and validated the measurement scale for customer relationship strength with a sample of 207 pairs of insurance agents and policyholders from a major Chinese life insurance company. A pool of items for the scale was first generated and purified on the basis of evidence for their content validity. Exploratory factor analysis and confirmatory factor analysis were then applied to provide evidence of the unidimensionality and reliability of the resulting scale. The convergent and discriminant validity of the proposed scale was then established by applying the MTMM matrix test and four other complementary tests. Finally, nomological validity was verified by examining the relationship between the proposed scale and three related constructs. This measurement scale has demonstrated good internal consistency, reliability and unidimensionality, appropriate convergent and discriminate validity, and acceptable nomological validity.

Despite the increasing research attention paid to relationship marketing, this has been the first study to provide a comprehensive, psychometrically sound, and operationally valid measure of customer relationship strength.

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HOW MUCH FREEDOM SHOULD BE GIVEN TO NEW PRODUCT DESIGNER SUPERSTARS? LESSONS FROM ART HISTORY

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SUMMARY

Nearly all design oriented companies have systems in place to coordinate the work of designers with that of managers, in particular, marketing managers. The integration between design and marketing is particularly evident where there is a superstar designer whose personal identity is the core of the brand image, for example Donna Karan.

At the same time, there is a lot of tension between maverick or superstar designers on the one hand – and marketers on the other (Beverland 2005). Much of this tension is rooted in basic differences between these two groups. Marketers’ work is more left-brained, context-focused, generalist and strategic. Designers’ work is more right-brained, ephemeral, product-focused, and tactical. Hirschman (1983) claims that artistic “products” do not fit the marketing model per se.

When a superstar designer wants to depart from the design brief, what should managers do? How much freedom should be given to superstar designers?

Art history suggests some interesting answers. If we equate superstar designers and their designs with great artists and their work – and marketing concerns with social context issues, we get some answers to these questions from a growing body of art research (e.g., Zolberg 1990; Bourdieu l984; Becker 1982) which focuses on the social context of fine and mass art.

There is a growing body of evidence that suggest that the popularity of a piece of art is due less to the alleged greatness of the artist and the work – and more to the careful understanding of the social context and the manipulation of the meaning of the piece of art by the artist and his or her associates. Research on the history of famous etchings (Lang and Lang 1988), for example found that the success of the etchings has less to do with the inherent artistic qualities of the art – and more to do with the cultivation of gallery owners, patrons, critics, and museum managers by the artist, his friends and family members. The “great” artists were mainly successful, in other words, because they – or people close to them – were great marketers.

The difference here is between what are called classical “internalist” theories of art history versus the newer “externalist” theories.

According to internalist theories, great art is the result of the talent of a “great” artist who is gifted with “inexplicable, ineffable, quasi-spiritual powers” (p. 14). These theories of art history are called “internalist” because they focus on the special capabilities of the individuals. Artists here are magically equipped to experience life and the world and express their feelings and interpretations in art. Experts can point to individual paintings and say “that is a Picasso” – just as followers of designer labels can say “that bag is a Gucci.”

Externalist theories consider external, social context factors as primary determinants impacting art history and popularity. As Zolberg writes, “I emphasize the designation of the social groups responsible for the emergence, discovery, dissemination, and institutionalization of some of the new forms” (Zolberg, p. 59). She underscores the significance of social issues in the production, introduction, and elevation of art to “great art” status. The Viet Nam war memorial, for example, was not due as much to the genius of the designer Maya Lin as to a host of social constraints which related to the war (which the U.S. lost, so the monument had to be low and obscure) as well as a wide variety of stipulations put on it from veterans, politicians, and veteran families. Similarly, the successful “market launch” of many significant historic etches, as indicated above was mainly due to market manipulations by artists, their friends and families. Finally, the elevation to “significant” art is usually due to deliberate as well as accidental social redefinitions. Zolberg notes how a mural in France from the Middle Ages was defined alternatively as religious artifact, then significant art, then a business enterprise, then back to great art again – all as a result of changing social pressures.

Some tentative hypotheses (underlined) follow:

1. Designs produced by “great designers” would not be liked more than designs from other designers. On a blind test basis, how would designs from superstar designers perform against designs from other designers? Is the idea of the genius artist or genius designer a myth?

2. Radical art objects as well as radical product designs do not achieve broad acceptance without social support, whether the latter is the result of opinion leaders, reference groups or deliberate efforts by marketers. This might involve extensive ex-post facto research,
comparing successful designs which emerged without any marketing or social support to designs which had extensive support.

3. Marketing-oriented companies outperform companies directed by “superstar” designers. It should be possible to find relatively “pure” cases of design-driven versus market-driven companies in the same categories, and assess performance levels of each. References available upon request.

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CREATIVE ADVERTISING CAMPAIGNS AS PRODUCT INNOVATION:
HOW PASSION, PROTECTION AND POLITICS SHAPE
ORGANIZATIONAL CREATIVITY

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SUMMARY

Has current innovation research been a bit less than innovative lately and perhaps lacking in creativity? Where is the spark that so defines the very nature of the ideation process? While there has been an extensive cataloguing of important factors predicting innovation in firms, including highly specialized talent, high levels of technical knowledge, and excellent external communications, there has been less emphasis on the more elusive and intangible components. Absent from much recent innovation research are the fiery passions, potential politics, and complex interactions of innovation’s dynamic lived experience. The creative vibrancy of the intellectual and soulful spirit of innovation research must be revived.

To put passionate complexity back into firm-level innovation research, this paper explores individual-level creative dynamics within the organizational context of advertising agencies. Agencies are natural laboratories for such research because they are prime examples of ideational thinking processes. In spite of numerous constraints and political pressures, agencies still deliver an innovative, creative product for an external client.

The basic framework for this research begins with the componential model of creativity. This model proposed four main components impacting creativity: task motivation, social environment, domain-relevant expertise and creativity-relevant processes. This study focuses on the first three of those four components. Several examples of these factors are explored in detail. The type of task motivation focused on is internal motivation, which is used interchangeably with the term passion. The aspect of agency social environment examined in this study is that of one which has a culture of defending creativity, dubbed protection. Finally, the two types of domain-relevant expertise are team expertise and formalization, called politics.

The purpose in choosing these factors is not to be exhaustive in exploring task motivation, social environment, or domain-relevant expertise, but rather to illustrate the kinds of complex dynamics and interactions possible with creativity. The confluence approach suggests that the most powerful creative situations exist when several critical factors coalesce. The systems approach similarly highlights interactions among individual, domain and field issues. There are certainly other complex dynamics worth exploring, but this research attempts to move away from cataloguing factors to delving deeper into the complex dynamics.

Individuals’ internal motivation or passion to create is fundamental, but rarely is it directly considered in the literature. Innovation scholars discuss related issues like openness, encouragement, support and rewards for innovation and a few also suggest that external motivation produces innovation. The creativity literature is more direct in stating that external motivation reduces creativity, while internal motivation increases creativity. When creativity is overtly rewarded or evaluated, people often game the system rather than exhibit truly creative behavior. Creativity should be pursued for its own sake, as a labor of love, since it is such an effortful process with rare pay-offs, even for those who do it very well. The passion to create is so central that internal motivation is a precondition for other effects. Although technical knowledge has the largest correlation with innovation, if internal motivation is lacking, even highly expert teams with extensive technical knowledge may not be any more creative than those of low expertise. Expert teams only produce more creative outputs under conditions of high internal motivation.

Given that agencies are filled with conflicting agendas, a culture of defending creativity is also vital, in addition to the intrinsic motivation of individuals. And even when innovation is outwardly supported with open attitudes and management support, it is much easier for organizations to “talk the walk,” than to follow through and have a true “walk the talk,” culture that defends high risk creative ideas.

Lastly, politics also affect creativity, and not always in a straightforward manner. Because innovators are frequently at odds with powerful authorities, it may be assumed that politics always hinders creativity. However, this research argues that politics only negatively affects creativity when the individuals involved are highly ex-
pert. When less expert people are involved, politics can improve creativity because it improves the ability of the less expert to garner resources.

Three hypotheses are developed and tested in an advertising agency setting to examine what internal agency factors predict advertising campaign creativity. Advertising agencies are an ideal natural laboratory for exploring organizational creativity and innovation because they consistently follow the consensus recommendations of creativity and innovation research. The data come from major full service advertising agency offices in New York and Detroit and represent 1188 campaigns reported by 413 employees from various agency departments.

Advertising is defined as creative when it is both original and on strategy. That is, creativity is defined as a derived scale based on the interaction of these two primary scales. With 30% of the variance explained, empirical findings support the hypotheses.

Because advertising campaigns exhibit characteristics of both innovation and creativity, such results provide important insights for firm-level innovation research. The central role of internal motivation or passion has been recognized in creativity research, but it now offers greater insight for innovation research. Some of the most well studied predictors of innovation like technical expertise need to be re-examined in the context of internal motivation and passion. At the least, innovation research needs to more specifically address interaction effects.

If marketing organizations and clients would like to use this information to enhance the creativity and innovation in their advertising campaigns, it is recommended that they engage the most highly expert agency personnel, buffer the politics, and defend creative ideas. Advertising clients who demonstrate the reputation of being a great client to work will attract the most highly creative personnel, competing for their account assignment with the highest internal motivation and creativity. Indeed, clients may be well advised to focus on internal motivation rather than imposing structure or politics for greater innovation and creativity. The impact of internal motivation on even less expert teams is still higher than the effect of politics. Although imposing structure and politics is one tactic to improving or even regulating an agency’s performance, it is not the most effective one. Creativity’s passionate complexity demands a real commitment for true innovation. References available upon request.

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THE EFFECTS OF GENRE AND COMPETITION ON NEW ENTERTAINMENT PRODUCT SALES PERFORMANCE

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SUMMARY

We examine empirical evidence of the effects of categorical product and distribution efforts on the success of new entertainment product introductions. A latent variable growth curve model is tested using a sample of 4,374 movies introduced in the U.S. between 1990 and 2001. The focus is the identification of direct and indirect effects of competition on the sales performance, moderated by the genre of the focal movie. The analysis of box office receipts over the initial weeks after the motion picture release date indicates complex, selectively moderated and non-linear responses to various inputs.

Competition at both the industry level and at the product category level, coupled with the intensity of distribution, plays an important role in the introduction of new entertainment products to the marketplace and is something that has not been considered in the marketing literature. Therefore, the specific research questions addressed by this study are: What are the competitive dynamics when release timing is considered in conjunction with the genre of the focal movie and other movies, including the ongoing movies and the new releases? What role does release scale play in the relationship between competitive intensity and the sales function of a movie? Does the effect of competition on the sales curve of a movie differ across genres? Does the release scale provide different sales returns for different genres (i.e., does the number of screens on which the movie is released yield different sales levels for different genres? Finally, do the competitive and release scale effects persist over the movie run or does it affect only the first week’s sales?

This manuscript explores the factors which influence the success of new motion picture launches using longitudinal data from the U.S. motion picture industry. The purpose is to go beyond usual approaches to identify prescriptions for studios and distributors as to when to release movies based on genre and competition. Further, our method will aid theatre managers when making screen allocation decisions to improve overall returns.

Sequential weekly box office receipts of movies released in the U.S. market over a ten year time period are used as the focal measures of the study. We employ a technique in which estimation of simultaneous structural path equations allows us to capture the differences in individual trajectories of the product sales curve, modeled as latent factors; a fundamental assumption being that change is systematically a function of time (Burchinal and Appelbaum 1991). The method used for analysis in this research is unique because it allows for multiple functional forms instead of a single form, which more deeply examines the constitution of the sales curve of different genres. Also, the effects of predictor variables on each other can be evaluated, along with their direct, indirect and total effects on the product sales function. The competitive environment, both across and within product categories is considered to be exogenous, while distribution intensity is included as an intermediary of the film’s relative success. Furthermore, the moderating effects of movie genre in the sales patterns over the first weeks after the launch are clearly identified and explored. Application of this method enables us to explicitly test our research questions.

The results indicate that the total number of screens in the U.S. has a positive effect on the release scale with the exception of the documentary movies, where there is virtually no effect. Contrary to expectations, the competitive intensity variables generally have insignificant negative effects on the release scale. The insignificance of the coefficients may imply that competitive considerations are not of primary importance in the decision making process of theater managers when determining the number of screens to allocate to a movie in the release week. Nevertheless, the release scale has a significant positive effect on the sales curve across all genres. As such, these results are in line with the existing literature (i.e., Neelamigeham and Chintagunta 1999), indicating a very strong effect of the release scale on the success of a movie. Further, the release scale has a strong positive effect on the slope of the sales curve, which indicates the effect is not limited to the first week of release, and is persistent over a movie’s run. The effect of the competitive intensity variables on the sales curve varies significantly across genres, and across the four competition types (same vs. different genre, ongoing vs. new releases). Yet, in general the competitive intensity variables have negative effects on the intercept and the slope of the sales curve. The total effects analysis also reveals a generally negative effect of
the competition variables on the sales curve, yet the effects differ in magnitude and significance across different genres and different types of competition. Hence, the results reveal a complex set of interactions among the competitive intensity, release scale and genre with respect to the sales performance of a movie. References are available upon request.

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SEGMENTING BUSINESS-TO-BUSINESS MARKETS: A MICRO-MACRO LINKING METHODOLOGY

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SUMMARY

In this paper a methodology is developed and tested that combines company demographic information with need based criteria in order to predict segment membership based on demographic information alone. The process reported utilizes cluster analysis to determine need based segments and then uses discriminant analysis to predict segment membership based on demographic information. The results can then be used to predict segment membership of additional firms based on demographic information without prior knowledge of their needs or preferences. The importance of identifying need based segments based on demographic information will become more important in the future as the use of e-commerce in business-to-business market identification and segmentation creates even more demographic information capability (Reedy and Zimmerman 2000; Bhatnagar and Ghose 2004).

There are two broad categories of methods that can be used to segment industrial markets: (1) A needs approach that is theoretically appealing since it is based on a thorough understanding of customer requirements. This approach is typically difficult to implement because benefit segments are not easily described in terms of demographics. (2) Identifiable/accessible approaches that are easy to implement, because they assume that buyer characteristics, such as demographics and psychographics are associated with underlying needs (Bonom at and Shapiro 1984). This approach is limited by the strength of the relationship between the demographic descriptors and the needs of customers. The relationship between these two methods has been described in the literature through the macro-micro segmentation method (Wind and Cardozo 1974) and the nested approach (Bonom at and Shapiro 1984). In both approaches demographic and behavioral needs are considered but must both be investigated for every firm under consideration.

An ideal industrial segmentation method would combine low cost and ease of access of the demographic (macro segmentation/outer nest) approach with the knowledge of specific customer needs (micro segmentation/inner nest). Previous research indicates that it is difficult to utilize demographic variables as surrogates for determinant variables or benefits sought by industrial customers (Moriarity and Reibstein 1986). Although researchers and practitioners have available to them a wealth of descriptive information on industrial markets, they have not in the past been able to utilize this information to directly identify and target benefit segments based on their likely response to marketing mix variables (Bonom at and Shapiro 1983).

A mail questionnaire was mailed to office system product dealers and required respondents to evaluate the importance of 103 marketing services provided by manufacturers that are used by dealers to select, evaluate, and retain vendors. Respondents were also asked to provide an evaluation of their four primary vendors on their performance on these marketing services using a seven point scale with one being "poor," and seven being "excellent." Of the 103 variables included in the questionnaire, 33 represented customer service/logistics services, 24 were product related, 18 were promotion related, and 28 were related to price. Respondents were also requested to provide information about the specific levels of service required from manufacturers, as well as demographic data.

The first step in the micro-macro linking procedure was to partition respondents into groups so that they would exhibit similar response patterns on the importance scores of the marketing services provided by manufacturers within groups, and different response patterns between the groups. Factor scores from a set of key marketing services were used as inputs to the cluster analysis. Based on this procedure, 18 variables that contained the widest variance across the five groups were extracted. Five clusters were identified with 237 of the 263 respondents clearly falling into one of the five groups. The remaining 26 respondents did not match these segments. These respondents represented large volume dealers that required varying combinations of marketing services. The clustering procedure was able to identify five dealer groups. Discriminant analysis was able to distinguish selected demographic values for each of these market segments and to identify those groups which differed substantially from all other customers.

The results of this study provide promising evidence that market segments can be identified for industrial customers based on micro-based attribute variables and that macro-based demographic descriptors can be used to predict membership in the micro-based segments. By
linking readily available macro segmentation demographic descriptors to highly effective (but difficult and expensive to obtain) micro segmentation based need information, the marketer can classify and target customers in a timely and cost-effective manner. By using a sample of customers to identify their needs and relating them to demographic factors, the necessity of identifying the specific needs of each and every customer is eliminated. References available upon request.

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NOT ALL MARRIAGES START WITH LOVE: A CONCEPTUAL FRAMEWORK OF OBLIGATORY RELATIONSHIP MARKETING

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SUMMARY

The concept of relationship marketing has become a popular topic among both academics (Morgan and Hunt 1994) and practitioners (Levine 1993). The notion of relationship marketing refers to an orientation that seeks to develop long-term relationships with customers, suppliers or even competitors for value creation through cooperation and collaboration (Juttner and Wehrli 1995). An important implicit assumption in the current relational exchange literature is that a firm decision to enter a relationship is completely under its own control. Interdependence between two firms and potential economic gains from the relationship are the basis for firms to pursue a relationship and a long-term orientation (Lusch and Brown 1996; Nevin 1995). An important and often overlooked type of relationship in marketing literature is what we call an obligatory relationship. This paper argues that there are incidents when firms may have to enter a relationship with another firm not because they have control over the decision or because it is directly beneficial. Instead, the reason may be due to some external forces which they cannot resist. In other words, they are obliged to form a relationship due to their interest in a third party. We define obligatory relationship marketing as relationships initiated by a third party and from which the dyadic parties do not perceive direct, tangible benefit than working with an alternative. Drawing on the network theory and relationship marketing literatures, we offer some exploratory insights into obligatory relationship marketing and explain what implications this motivational deviation may have on marketing theories.

As obligatory relationships involve at least three parties (the initiating firm, the focal firm, and the target firm), its formation can best be explained by network theory. Organizations within a network system do not necessarily have direct ties with all the players in the network and the ties each organization has may well vary from firm to firm. The construct of positional embeddedness captures the impact of the position a firm occupies in the network on its decision to develop new collaborative ties and its ability to obtain private information (Gulati and Gargiulo 1999; Zaheer and Zaheer 1997). To be in the center of a network brings the benefit of diversified information access and its attractiveness as a partner to other organizations. Another advantage of the centrally situated organization is that such a firm may be more attractive to other parties as a partner because its position in the network signals experience and ability to hold that position (Podolny 1993). Coordinating and influencing the strategic decisions of other firms requires that the influencing firm hold a position such that it has the ability to persuade other firms in the network. As such, the probability of initiating an obligatory relationship is positively related to the centrality of the initiating firm.

In order for an obligatory relationship to be established, the focal firm must support the idea in some capacity, but also communicate the desire to fulfill the objectives of the initiating firm. According to the relational marketing literature, parties more dependent on others in a relationship typically believe that they need to maintain the relationship in order to achieve their goals (Bushnan 1992; Frazier 1983). In addition, they are less likely to respond to requests that may result in escalation or ultimately the dissolution of the relationship because an inaccessibility to critical resources would endanger the firm survival (Kumar, Scheer, and Steenkamp 1998). Therefore, the probability of the focal firm to enter an obligatory relationship is positively related to its dependence on the initiating firm.

Doney and Cannon (1997) discussed five distinct processes by which trust can develop in business relationships: calculative, prediction, capability, intentionality, and transference. In an obligatory relationship, calculative, prediction, capability, and intentionality trust do not develop easily due to the absence of direct economic benefits and usually a lack of information about the target party. However, Doney and Cannon (1997) suggest that trust can be transferred from a trusted source to another party with which the trustor is not familiar. Network theory suggests that firms in a network can assess the capabilities, reputation, and trustworthiness of others by relying on information provided by existing inter-organizational networks (Gulati and Gargiulo 1999). Therefore, the level that the focal firm trusts the target firm in an obligatory relationship is positively related to the focal firm trust in the initiating firm. This relationship is moderated by the focal firm perception of the network distance between the target firm and the initiating firm, but also the focal firm perception of the target firm level of dependence on the initiating firm.
Anderson and Weitz (1992) proposed a framework in which the positive reinforcement effect of commitment exists between the partners in a relationship. As one party commits more resources to the relationship by investing in more transaction specific assets, this motivates the other party to be more committed as well. Given the dependence of the focal firm on the initiating firm, the focal firm may use its commitment in the obligatory relationship as a signaling tool to the initiating firm (Oliver 1990). Therefore, as the dependence of the focal firm on the initiating firm increases, we would expect it would commit more to the obligatory relationship as a signal to the initiating firm in the hope of benefiting from some equivalent, undetermined reciprocity in the future.

Consistent with relationship marketing literature, we propose that the trust and commitment level of the focal firm in an obligatory relationship is positively associated with the relationship quality between the focal firm and the target firm. However, as self-serving bias from attribution theory suggests, the quality of the relationship between the focal firm and the initiating firm could be positively or negatively influenced, but is largely dependent on the quality of the obligatory relationship. References available upon request.
MANAGING THE RELATIONSHIP’S BITTER DETAILS: A STUDY OF RETAILER AND SUPPLIER POST-AUDIT BEST PRACTICES

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SUMMARY

Research in the management of customer relationships examines collaborative practices and governance systems between organizations. However, even when organizations develop collaborative buyer-seller relationships, adversarial practices still continue between the parties. As a context for this examination, in the fast-moving consumer goods (FMCG) industry, suppliers and retailers have worked to develop collaborative buyer-seller partnerships to increase supply-chain efficiencies designed to deliver products to consumers faster and cheaper. However, in spite of the collaborative spirit that governs these overall relationships, the costly adversarial practice of post-audit recovery by the retailers continues to be a major irritant in these relationships. This practice pushes organizations back towards contractual governance and away from trust-based governance of the relationship.

This article reports on a major research study that examines the post-audit practice in the FMCG industry in detail. In doing so, this article attempts to make two primary contributions to marketing research. The first is to general theory and practice of buyer-seller relationships, specifically examining post-audit practices. The result of this research is to make recommendations for best-practices that will seek to mitigate the negative relationship consequences, under the assumption that the practice will continue. The second is to define a research methodology that can be used when addressing a phenomenon at an industry practice level. The rest of this abstract will begin by describing post-audit practices, then outline the research methodology employed to examine the practices, and conclude with findings and recommendations of best-practices.

In the FMCG industry, suppliers and retailers engage in complex trade promotion practices, differential pricing, and varying payment terms. The sheer complexity of these activities inevitably results in accounting errors that require the practice called “post-audit recovery,” where the retailer audits transaction records one to two years after the accounting books have closed for the current year. While errors will naturally occur and post-audit recovery practices should seek to rectify these “black and white” errors, the domain of post-audit recovery practice has expanded to consider a wide variety of “discrepancies” where the explicit nature of the promotional agreement conflicts with the implicit contractual nature that governs the long-term relationship between trading partners. For example, promotional periods run for certain time periods specified on the “deal sheet” offered by the supplier to the retailer, but the retailer commonly takes the promotional discounts on orders made outside the explicit deal period. Since the additional promotional allowance is determined during the post-audit, this results in the retailer arbitrarily deducting this amount from a current invoice, even though the promotion (and related purchases) occurred 12–18 months previously. Thus the desired cooperative and collaborative current relationship between the sellers and buyers in the trading partner companies must operate simultaneously with the adversarial relationship of the finance/accounting departments of the trading partners during the post-audit period. This can have a detrimental effect on the overall relationship.

Since this is a new area of research, a methodology to study it at the industry level, between both suppliers and retailers, needed to be developed. This would need to include both qualitative and quantitative methods to determine the prevalence of post-audit recovery practices across suppliers, retailers, and post-audit companies; the operating conditions and rationale for adopting specific practices; the causes of inefficiencies and conflict among the parties; and the “best practices” that lead to efficiencies, effectiveness, and are mutually accepted by all parties concerned.

Following intensive background research by the research team, which primarily involved in-depth interviews of third-party post-audit accounting companies, in November 2003, we invited a group of retailers and suppliers for a “summit meeting” to discuss the issues surrounding post audit accounting practices. The event was attended by representatives of 41 companies comprised of 21 retailers (representing annual sales of $621B) and 20 vendors (representing annual sales of $179B). As a major component of the meeting, attendees participated in a nominal group discussion (NGD) process, where the participants were seated in multiple round table groups, were given specific questions along with a limited amount of time to discuss each question, and then asked to report
their responses to the main group. The main group would then work towards agreement for prioritization of each sub-group’s responses. Given the potentially contentious nature of the discussion, the research team decided in advance to separate the retailers from the vendors for the major discussion, and then bring these two groups together after the NGD to show the results from the other’s NGD. The research team acted as the facilitators, and provided a prepared framework for discussion for the retail participants and their vendor counterparts discussed and presented key issues for each topic.

Based on the findings from the NGD and the first summit meeting, the research team prepared a set of five extensive questionnaires. Each questionnaire had considerable common question areas, but each was customized to the recipient: vendor sales, vendor accounting, retailer purchasing/merchandising, retailer accounting, and third-party post auditors. The development of the questionnaires was guided by a “steering committee” of seven retailers and seven vendors who attended the first summit meeting, who also assisted in facilitation of the survey administration. A total of 161 responses from 62 companies were received, with an almost even split between retailers and vendors.

The research team analyzed the survey data and developed a set of findings and recommended “best-practices” based on these results. Thus a second “summit meeting” was convened in December 2004, with many of the same attendees as from the first summit meeting. In this meeting, the “synoptic group discussion” method was employed to condense the ideas and to decrease the divergence in ideas, with the ultimate objective to agree on a set of practices that would be considered “best” by the industry.

From the various research methods employed throughout the study, the research team generated a list of 85 identified post-audit “practices,” grouped them into eight categories, and determined which were considered “best.” In the presentation, the findings delivered to the industry will be shared. References available upon request.

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SHELF SPACE ARRANGEMENTS AND BRAND SIMILARITY PERCEPTIONS

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SUMMARY

The Point-of-Purchase Advertising Institute reports that 67 percent of all brand purchase decisions are made in the store; some purchases are unplanned at the time the shopper enters the store, in other cases the shopper intends to buy a product and makes the brand selection in the store, and in some cases the shopper makes a substitution of the intended brand or product (Wilkie 1994). These findings highlight the fact that merchandizing efforts influence shoppers and indicate that retailers and manufacturers have one last chance to persuade them to consider their brands. One important aspect of merchandizing is the arrangement of the brands on the store shelf, especially for product classes with numerous offerings. Thus, the primary objective of this research is to investigate how the arrangement of brands impacts shoppers’ consideration sets, their overall brand similarity perceptions, and their purchase intentions. Second, this research also investigates the beliefs consumers hold about shelf space arrangements.

Hypotheses

This research proposes and tests three effects of seeing several brands near each other on the store shelf. The first effect concerns the influence of the proximity of brands on consumers’ consideration sets. Once the consideration set is established, the knowledge of contexts effects is used to investigate the second effect which is how proximity on the shelf influences brand similarity perceptions. In an attempt to better understand this inference, attribution theory and consumer skepticism and knowledge (Wright 1986) is used to explore the beliefs consumers hold about shelf space arrangements. The attributions may be in the category of shopping heuristics, where the beliefs reflect the idea that the items are grouped by similarity to ease decision making and save time, or in the category of a persuasion attempt, where the retailer and/or the manufacturer is trying to persuade consumers to consider or try certain brands. Finally, the third hypothesis proposes that proximity, ultimately, influences purchase intentions.

Data

Eight questionnaire booklets were designed to depict a store shelf, displaying eight brands of pasta sauce in a single row. Each questionnaire displayed the pasta sauces in a different order, serving to vary the proximities of the various brands. The questionnaires were randomly distributed to marketing students and 92 were returned and used in the analysis.

Based on these pictures, respondents first provided their assessments of the similarity of each pair of brands. In the second section respondents were asked to identify the level at which each of the eight brands possessed each of six attributes. Next, respondents were asked provide their preference rankings over the set of brands, and likelihood of purchase for each brand. Last, respondents received a list of statements regarding store shelf arrangements, and indicated the extent to which they agreed with each one. These statements served as the multi-item measures used to capture the beliefs shoppers hold regarding the arrangements of brands on store shelves.

Results and Discussion

For each of the possible 28 brand pairs, the dependent variables reflect: (1) the overall similarity of each pair brands, (2) the difference in the likelihood of purchasing each brand, and (3) the difference in preference for each brand. One explanatory variable that would partially, if not fully, explain the dependent variables is the difference in perceived attribute levels in these brand pairs. A second explanatory variable that is being tested is the distance between the brands, as indicated by the picture each respondent received. Therefore, the hypotheses are verified by the significance of the coefficient on this distance measure, in the presence of the attribute level perceptions. In several different models, the coefficient on the distance measure is significantly different than 0 at the 1 percent level. This shows strong support for the argument that the location of a brand on the store shelf, with respect to the brands closest to it, influences the shoppers’ consideration sets, perceptions of the similarity of the brands, and their purchase intentions.

In order to investigate consumers’ attributions and knowledge about shelf space arrangements two models were estimated. In the first model, the dependent variable is the similarity rating of each pair of brands and the significant explanatory variables are the belief that the brands are grouped by similarity (significant at 1%), are an attempt by the retailer to persuade consumers to consider certain brands (significant at 5%), and an attempt by the manufactures to persuade retailers to encourage the
purchase of their brands (significant at 1%). In the second model, the belief that brands on the shelf are grouped by similarity is dependent on the belief that the shelves are arranged to ease decision making and save time (significant at 1%) and that there is a plan to the arrangement (significant at 5%). Future work involving the segmentation of these respondents on shopping habits may provide additional insight into these beliefs.

This research shows that managers can create similarity perceptions merely by locating one brand near another, influencing considerations sets, brand evaluations and purchase intentions. Further, based on the attribution information, this can be perpetuated because those who increasingly believe that there is a plan to the arrangement of items on the store shelves increasingly believe that similar brands are grouped together. For those who increasingly believe that brands are grouped by similarity, they also understand that this is a mechanism that retailers use to encourage consumers to consider certain brands. Given their acceptance of this behavior it allows managers to use it for providing attribute and brand information. In summary, consumers glean brand similarity assessments from shelf arrangements and incorporate into their choices. References available upon request.

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AN EXPERIMENT ON GIFT-GIVING AND RECIPROCITY IN THE RETAIL RELATIONSHIP CONTEXT

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ABSTRACT

Retailers can use gifts to induce customer patronage by relying on the principle of reciprocity. A field experiment using 2 (Personalized/Impersonal) X 2 (Expensive/Inexpensive) factorial design shows that shoppers’ intentions to reciprocate depend on their indebtedness and attitude, which in turn depend on the type, not cost, of gift.

INTRODUCTION

Relationship marketing stresses the importance of continuous interaction between the seller and the buyer in order to cultivate a long-term, mutually beneficial relationship. More specifically, in the retailing context, Relationship Marketing has been termed as Relationship Retailing where it is in the interest of retailers to establish and maintain long-term bonds with customers (Berman and Evans 2004). Business-to-business relationships, for example, between industrial purchaser and supplier, involve gift-giving (Kelley and Dorsch 1991). Business gift-giving is pervasive as businesses spend substantial amounts in gifts to their customers (Sharma and Thompson 1989a). Even in personal selling such as mortgage loans, gifts can often help build up goodwill among clients and obtain referrals from them (Sharma and Thompson 1989b). Just as businesses exchange gifts to cement relationships (Cram 1994), retailers also do so through the use of gifts. Though gift-giving has received attention in consumer research, there has been less emphasis on gift-giving as a relationship marketing tool. This paper explores gift-giving and reciprocity in the retail context from a retailer-customer relationship perspective.

What business-to-business selling and business-to-consumer selling have in common is a powerful social norm: The Principle of Reciprocity (Greenberg and Frisch 1972). The notion of this principle is that an individual who receives a benefit or a gift from another is socially indebted to the giver and will remain so until he repays in kind or value. Simply put, one good turn begets another.

OBJECTIVES OF THE STUDY

With regard to gift-giving, Davis (1972) proposed “an especially ambitious study of comparative exchange that accounts for the differential commodities, symbolic meanings and institutional settings involved in transactions.” Sherry (1983) concurs that such a study would marry the disciplines of consumer research and anthropology, as issues of mutual interest to both disciplines would be looked into. This sets the stage for the topic of this paper: Gift-giving and reciprocity from retailers to customers.

The principle of reciprocity originated from the fields of sociology and anthropology. These studies have examined reciprocity in terms of favors where no physical entities were exchanged (Greenberg and Frisch 1972; Brehm and Cole 1966). Dorsch and Kelley (1994) indicated that there has been little academic research in the examination of effectiveness of vendor gifts in influencing customer and prospect behaviors. Research into various facets of gift-giving – gift type, occasion, point of origin, mechanics of reciprocity, and the symbolic value of gifts relative to specific occasion – has also been called for (Davis 1972). Though there has been some subsequent research on facets of gift-giving (e.g., Ruth 2003), more needs to be done in this area. Thus, the first objective of the study is to investigate reciprocity and indebtedness in receivers when different types of gifts of different monetary value are actually given.

It has also been said that gift exchanges between individuals and corporate groups were less frequently described and less perfectly understood than other types of gift-giving. Gift exchanges are usually charitable in nature (Sherry 1983). Belk (1976, 1979) advocated the expansion of research into gift-giving to include corporate and anonymous giving. Hence, the second objective of this research is to examine gift-giving in a business setting, namely retailing.

Some studies have focused on gift-giving in the business-to-business scenario, e.g., corporate buyer-seller relationship (Dorsch and Kelley 1994), and personal selling between two complementary businesses, like mortgage lenders and real estate agents (Sharma and Thompson 1989a, b). This leaves a void for an investigation of gift-giving in the business-to-consumer relationship, like the retailer-customer relationship. The retail context presents several unique dimensions and challenges that warrant additional research on gift-giving. Unlike the business-to-business scenario where the sales-
person has a better chance to build long-term relationship with the client through sustained personal interactions, retailer interaction with customers is more impersonal and relatively free of expected norms and regulations. The retail scenario is marked by large number of customers, smaller volumes of purchase, and individual purchasing, and therefore a greater need for relationship marketing at the individual level. Customer retention is a unique challenge in the retail context.

THEORETICAL BACKGROUND

Relationship Marketing and Gift-Giving

The goal of relationship marketing is customer retention, and this paper attempts to examine customer retention through gifts from retailers. Gifts are one of the many tools that retailers can use to do relationship marketing (Cram 1994). They are a way of visually demonstrating to customers that the retailer appreciates their business (Phaneuf 1995). Gifts can allow retailers to keep in touch with their customers. In order to understand the kind of gifts that can be given to their customers, as well as how to reach them, customer information is important. Such information can be collected through contest forms, club membership applications, preferred customer programs, and the like (Vavra 1992). Gifts may not be the sole reason why customers find their way back into the same store. However, gifts could trigger off cognitive and affective responses in customers, such as indebtedness and reciprocity, which lead them to re-patronize a store.

Gift-Giving and Reciprocity

Gifts are usually given for a significant occasion, such as a graduation or a birthday, or they could also be ad-hoc, ongoing or non-recurring. According to Sherry (1983), a gift refers to a benefit one party confers voluntarily on another, regardless of the nature of the benefit conferred or the motives for engaging in the gift-giving behavior. Sherry also adds that whether a benefit is provided for altruistic or egoistic/agonistic reasons, the very act of providing the benefit voluntarily to another party is enough to constitute gift-giving behavior.

The theory of reciprocity is the key theory that explains consumer responses to gift-giving. Gift-giving is pervasive and significant in modern culture and it evokes a self-perpetuating system of reciprocity (Mauss 1954). In addition to gifts being tangible expressions of social relationships (Sherry 1983), reciprocity exists for all gifts (Pin and Tumdorf 1985). Dyadic gift exchanges affect social relations, and the receiver would very much prefer to return a favor due to the benefits gained from that gift as well as to maintain a friendly social relationship (Rucker et al. 1991). The effect of gift-giving on social relations has also been demonstrated for larger social circles (Lowrey, Otnes, and Ruth 2004). Research has shown that gifts can build up market share and goodwill (Sharma and Thompson 1989a). Retailers can therefore use gifts to cultivate a longer lasting relationship with their customers so that their repeat patronage can be increased. The customers would feel a sense of obligation to return to that same retail store because of those gifts, even if the gift was to secure at least feigned affection (Jones 1964).

However, some recent research suggests that reciprocity is not an absolute rule and does not occur in all situations (Joy 2001). Joy (2001) suggested that gift relationships occur against the backdrop of cultural rules such as reciprocity. Wooten (2000) showed that gift-giving creates anxiety when givers are highly motivated to elicit desired reactions from their recipients but are pessimistic about their prospects of success.

Gift-Giving and Equity Theory

Another important issue in retail relationships is equity. Equity theory relates to the inputs that a consumer perceives to have contributed to the retail relationship. That is, a loyal and/or significant customer of a retailer may have very different expectations of what a gift should be. This issue is akin to perceived manipulation.

THE CONCEPTUAL FRAMEWORK

The purpose of the proposed model is to study the effects of gifts on the reciprocity of the recipient to the giver. In this case, it would be the customer’s reciprocity towards the store. The proposed conceptual framework is adapted from Dorsch and Kelley (1994) whose research was on the intentions of purchasing executives to reciprocate upon receipt of gifts from their suppliers. While the setting has now been altered to the retail sector, the model still retains the key antecedents and consequences of gift-giving – type and/or cost of gifts, indebtedness, intentions to reciprocate, and perceived manipulation. Some linkages have been modified to suit the retail context.

The Endogenous Construct

Intentions of Reciprocity. The exchange of gifts, whether as a good or service, in a business setting can be traced to the theoretical construct of reciprocity. Reciprocity has its roots in primitive societies where for a stable relationship to exist between two parties, each provides benefits to the other. It was from this setting that the norm of reciprocity evolved.

The Antecedents

Type and Cost of Gifts. Any resources – objects, services and experiences – can be gifts (Sherry 1983). The more expensive the gift, more are the benefits derived
from it and higher is the level of indebtedness (Greenberg and Frisch 1972). However, that is not necessarily in terms of monetary value. The gift may also be “expensive” in terms of the amount of effort the giver took in finding or making the gift, etc. With reference to the retail setting, “gifts” are defined as programs that give benefits to customers when some conditions are fulfilled. An example would be store loyalty programs, where customers receive some benefits in the form of free merchandise or cash rebates when they shop in a particular store and spend a minimum amount of money.

The gifts that retailers give to customers can take on a variety of forms, including samples and free trials, conditional give-aways, coupons, premiums, lucky draws and contests, rebates, dividends, and vouchers. Basically, they can be categorized as “personalized” and “ impersonal” gifts based on their type; and as “expensive” and “inexpensive” gifts based on their cost. The norm of reciprocity states that a gift generates a reciprocal response. However, in previous research, different types and costs of gifts gave rise to different responses. We wanted to test this in the retail context. A customer would find a personalized, expensive gift more appealing and would more likely feel a stronger sense of indebtedness to the retailer. This gives rise to the following hypotheses:

**H1:** Personalized gifts have a stronger impact than impersonal gifts on the level of indebtedness of retail customers.

**H2:** Expensive gifts have a stronger impact than inexpensive gifts on the level of indebtedness of retail customers.

Gifts and corresponding intentions to reciprocate could qualify as reasons as to why customers would choose to go to a particular store. Since positive attitude leads to patronage of a store, it is imperative for retailers to create positive customer attitudes to achieve customer retail preference. Subsequently, stores will benefit from the increased patronage that positive attitudes bring with them (Jones, Durand, and Dreves 1976). When the various types and costs of gifts are manipulated to examine their effects on customer attitudes, the following hypotheses are proposed:

**H3:** Personalized gifts have a stronger impact than impersonal gifts on the retail customers’ attitude towards the store.

**H4:** Expensive gifts have a stronger impact than inexpensive gifts on the retail customers’ attitude towards the store.

**Indebtedness**

Favor received generates a condition of indebtedness, which is a state of tension having motivational qualities such that the greater its magnitude, the greater the efforts to reduce it (Greenberg 1968). That means, when one party benefits another, an obligation is generated where the recipient becomes indebted to the donor and remains so until he repays. If applied to a retail setting, the customer might feel obligated to continue his patronage at the same retail store to “repay” the benefits that the store has given to him on his previous visit. The more strongly the recipient perceives the donor’s action as intentional or deliberate, the more strongly obligated he will feel to reciprocate. Sometimes people tend to equate indebtedness with gratitude, while at other times, the opposite might be true. Gifts could instil feelings of personal gratitude towards a retailer, leading to a sense of indebtedness (Pincus 2004), resulting in intentions to reciprocate. Consequently,

**H5:** Feelings of indebtedness experienced by customers are positively related to their intentions to reciprocate.

**Shopper Attitudes**

The Theory-of-Reasoned-Action (Fishbein and Ajzen 1975) suggests that the best predictor of behavior is the intention to act. Intention to reciprocate depends on customer’s attitude towards the store and norms of reciprocity. Psychological and socio-psychological literature has devoted significant research attention to the role of reinforcement in encouraging and maintaining desired behavior. Positive reinforcement is a promising technique for perpetuating desired responses. A behavior is more likely to be repeated if it is rewarded. That is, if retailers want to encourage repeat patronage, or to simply increase a customer’s favorability towards a store (attitude), a gift could act as a positive reinforcement for store-patronage (behavior). Positive reinforcement works better than negative reinforcement and is shown to increase sales. Positive reinforcement is also useful in arousing or regaining old customers (Carey et al. 1976). Thus,

**H6:** The positive attitude of shoppers towards the store is positively related to their intentions to reciprocate.

**Perceived Manipulation**

Perceived manipulation pertains to the customer’s interpretation of the retailer’s motives for giving the gift. Customers are generally aware that retailers are trying to influence them to come back to the store. It is interesting
to explore the level of impact of retail gifts on customers’ perceived manipulation. Ellen, Mohr, and Webb (2000) observed that manipulation might be attributed to the gift-giver based on the context. Therefore,

H₇: Shoppers perceive manipulation from the retailers when they receive gifts, regardless of the type and cost of the gift.

Attribution theory, which addresses how people make causal inferences about others’ behavior, has been successfully applied to the business context across situations (e.g., Folkes 1984). Customers may use aspects of the gift to make inferences about the manipulative motives of the retailer. These inferences may, in turn, affect their indebtedness towards the retailer. Evidence from social science research suggests that gift recipients experience higher levels of indebtedness when donor motives for gift giving are not perceived to be manipulative (Greenberg and Frisch 1972). Hence,

H₈: The level of perceived manipulation is inversely related to the feelings of indebtedness towards the retailer.

Although customers tend to feel obligated to return to a store on receiving gifts from retailers, they would still have the option not to exercise reciprocity if they perceive high levels of manipulation from the retailers. This conforms to previous research findings based in a social context: reciprocating behaviors are impeded by high levels of perceived manipulation (Lowe and Goldstein 1970). Attributional inferences of customers about manipulative motives of the retailer could affect their intentions to reciprocate (Ellen, Mohr, and Webb 2000). Thus,

H₉: The level of perceived manipulation attributed to the retailer by customers is inversely related to their behavioral intentions to reciprocate to the retailer.

METHODOLOGY

Research Design

The study employed an experimental research design methodology using shopping and gift scenarios to maximize both internal and external validity of the findings. The scenarios were strengthened using colored pictures of gifts and written descriptions of the shopping experience. The manipulation items were the type and cost of gifts, both of which were manipulated independently. Hence, a 2 (Personalized, Impersonal) x 2 (Expensive, Inexpensive) factorial design was employed. The four experimental conditions are: personalized and expensive gifts, personalized and inexpensive gifts, impersonal and expensive gifts, and impersonal and inexpensive gifts. The dependent variables that were examined are indebtedness, attitude, perceived manipulation and the intentions to reciprocate.

Subjects

A total of 220 people were recruited as voluntary subjects in this experiment through convenience sampling using mall intercepts. A response rate of 85 percent was achieved with 187 completed responses. Out of these, 27 responses were not usable due to gross inconsistencies. Since a factorial design was employed, care was exercised to ensure that each cell had about the same number of subjects. This was done so that an analysis of variance could be successfully carried out on the data. Each cell had between 35–45 respondents. The responses were divided based on the scenarios given with each questionnaire. Each subject was randomly assigned to one of the four different treatment conditions. The demographic profile of the subjects was balanced between male and female, and between all age groups, with the exception of the 21–30 years age group which accounted for 44.4 percent of the sample.

Research Context

The gifts that were selected for the research were products chosen from home-shopping magazines. The gifts were then subjected to various pre-tests to determine how shoppers generally viewed the gifts – whether they were expensive/inexpensive and personalized/impersonal. Four types of gifts were chosen to represent the manipulation of the independent gift variables.

Manipulation of Independent Variables

In order to understand the effect of the two independent variables – the type and cost of gift, written scenarios were used.

Type of Gift: The type of gift is classified as either personalized or impersonal. Personalized gift refers to the gift being made available to a selected group of persons only and that the gift is personalized via the engraving of the customer’s initials on the gift. An impersonal gift would have been made available to anybody. All gifts were obtainable free of charge with every $100 purchase. Participants were not informed about the gift prior to purchases.

Cost of Gift: A gift is classified as expensive or inexpensive, depending on the monetary value of the gift. The monetary value was assigned on the gift, so as to be consistent with the picture shown and realistic enough for subjects to believe that retailers could afford to give it to their customer after maintaining some profit margin. The
different values were then indicated in the scenario and were pre-tested for an agreement of what constituted an expensive or inexpensive gift.

Treatment Conditions and Pretest

The pre-test of the four scenarios was done following the selection of the four treatment conditions. During the pre-tests, 32 people were selected randomly to rate the pictures with the description. The basis of selecting the final four pictures was the highest frequency of respondents who thought the picture adequately represented that of a personalized/impersonal, expensive/inexpensive gift. An equal number of respondents were then assigned to each of the four treatments to facilitate analysis. The pre-test results show that there was a significant difference perceived by respondents between personalized (mean = 5.375) and impersonal (mean = 2.563) and between expensive (mean = 5.125) and inexpensive (mean = 2.813) gifts. The above results show that the manipulations indicated by the pictures and descriptions were successful.

Constructs, Definitions, Measures, and Reliability

The construct measures were adapted from previous studies or developed from pre-tests. A seven-point Likert scale from “completely disagree” to “completely agree” was used. Shoppers’ attitude (shopper’s favorability to the store because of the gifts) was measured using 6 items. Indebtedness (shopper’s feelings of obligation towards the store because of the gifts) had 7 items. Perceived manipulation (shopper’s level of perception that retailers have agonistic reasons behind those gifts) was measured using 3 items. Intention to reciprocate (motivations on the part of the shopper to return to the store) was measured using 5 items.

Reliability and validity assessments were carried out in two stages. First, in order to assess the validity of the scale items, factor analysis (principal component analysis with varimax rotation) was done. Factor loadings exceeded the minimum cut-off of 0.5, as specified by Zikowsky (1985). Next, reliability analysis was carried out using the alpha reliability coefficients (Cronbach 1951). The cronbach alpha coefficients for shopper attitude, indebtedness, perceived manipulation and intention to reciprocate were 0.85, 0.91, 0.81, and 0.9 respectively. The measures displayed good reliability as all alpha coefficients exceeded 0.70 (Nunally 1978).

DATA ANALYSIS

Manipulation Checks

A two-way ANOVA was performed to determine the effectiveness of the two experimental manipulations.

Type of Gift: The type of gift displays the strongest impact ($F = 90.673, p < 0.05$) on the manipulation check. A minor and insignificant main effect is found in the cost of gift manipulation. Subjects who were given personalized gifts rated the gifts more personalized (mean = 4.94) than those who were given impersonal gifts (mean = 2.78). It can be concluded that subjects could correctly differentiate the type of gift given to them.

Cost of Gift: The ANOVA reveals that the cost of gift is the main effect observed ($F = 98.381, p < 0.05$). The cell means for an expensive gift is higher (mean = 4.85) than an inexpensive gift (mean = 2.68). The type of gift effect is small and insignificant. Hence, the manipulation for the cost of gift is also successful.

Hypotheses Testing

Indebtedness. A two-way ANOVA was employed to assess the effects of the type and cost of gift (treatment variables) on the level of indebtedness (dependent variable). Only the main effect of the type of the gift is significant ($F = 12.393, p < 0.05$). At $F = 0.734$, the cost of gift on the shoppers’ indebtedness is not significant as a main effect. The non-significance of the interaction between the type and cost of gift ($F = 0.165, p > 0.05$) shows that shoppers’ level of indebtedness towards the store does not depend on the interaction of the type and cost of the gift given. Hence, only $H_1$ is supported. $H_2$ is not accepted.

Shoppers’ Attitude. A two-way ANOVA was used to examine the effects of the treatment variables – type and cost of gift on the dependent variable – shoppers’ attitude. The results show that only the main effect of the type of gift is significant ($F = 13.88, p < 0.05$). Customers who were given personalized gifts indicated that their attitude was more favorable to the store (mean = 4.79) than customers who were handed impersonal gifts (mean = 4.25). Thus, $H_t$ is supported. On the other hand, the main effect of cost of gift on shoppers’ attitude is non-significant ($F = 0.539, p > 0.05$). The difference between expensive (mean = 4.57) and inexpensive (mean = 4.47) gifts is too marginal for it to be significant. Hence, $H_i$ is not substantiated. Further, there is no significant interaction effect between the type and cost of gift ($F = 0.093, p > 0.05$).

Perceived Manipulation

Unlike the previous two variables, the ANOVA for this variable showed that neither the type ($F = 0.908, p > 0.05$) nor the cost ($F = 0.915, p > 0.05$) of the gift mattered when measuring shoppers’ perceived manipulation by the retailer. There is also no significant interaction between the treatment variables ($F = 0.43, p > 0.05$). $H_1$ is not substantiated.
**Indebtedness and Perceived Manipulation.** Using MANOVA, we find that the dependent variables – Indebtedness and Perceived Manipulation – are negatively correlated (log determinant = -0.3824). Subjects who perceive higher levels of manipulation feel less indebted to the retailer and vice versa. The correlation is significant at \( p < 0.05 \). Hence, \( H_9 \) is accepted. The MANOVA analysis yielded additional findings by testing the relationship with either of the 2 treatment variables and with their interaction. There is no significant effect of type and cost on the relationship between indebtedness and perceived manipulation \( (p > 0.05) \). The same findings apply to the effect of the cost of gift \( (p > 0.05) \). Only when the treatment variable of type of gift is tested, a significant difference is observed \( (p < 0.05) \) in the mean scores for the dependent variables of indebtedness and perceived manipulation. It can be further concluded from the analysis that the effect of type of gift is stronger on indebtedness. Thus, indebtedness \( (F = 12.427, p < 0.05) \) contributes more to the differences in means than perceived manipulation \( (F = 1.361, p > 0.05) \).

**Intentions to Reciprocate.** The effects of indebtedness, shoppers’ attitude and perceived manipulation on intentions to reciprocate are examined through multiple regression analysis. The positive coefficients of both shoppers’ attitude and level of indebtedness on intentions to reciprocate confirm \( H_5 \) and \( H_6 \). The positive beta coefficient of perceived manipulation goes against hypothesis \( H_7 \). Hence, \( H_7 \) is further examined through the use of correlation analysis. The final analysis consists of a correlation analysis examination to uncover the general relationships between the various variables. In line with \( H_5 \) and \( H_6 \) proven earlier, attitude and indebtedness are positively related to the intentions to reciprocate. The inverse relationship between indebtedness and perceived manipulation \( (H_7) \), as seen in the MANOVA analysis, is also confirmed in this correlation analysis. The outstanding hypothesis \( (H_7) \) stated that perceived manipulation and intentions to reciprocate share an inverse relationship. This inverse relationship is found to exist in the correlation matrix. The correlation coefficient is -0.1416 and is significant at \( p < 0.1 \). Thus, \( H_7 \) is accepted.

**DISCUSSIONS**

**Summary of Findings**

A summary of the research findings is furnished in the model in Figure 1.

**Implications**

In this study, in the retail context, only the type of gift induces reciprocity in the shopper. The theory of indebtedness states that indebtedness dissolves when the receiver repays the donor. This holds true only if the receiver knows just how much he “owes” his benefactor. The extent to which a gift is perceived to be personalized or impersonal depends on the shoppers’ own judgment. It is difficult to equate the level of indebtedness to the type of gift received. Thus, shoppers can feel indebted for an abnormally long time because they have no benchmark as to how obligated they should feel due to the gift. This implies that indebtedness is stronger in situations where the repayment of the receiver to the donor is ambiguous.

Gifts triggered a reaction in shoppers’ attitude toward the retailer and subsequently their motivations to shop – due to their reciprocal intentions. Hence, this study not only confirms past research that shopping behavior can be inferred from store attitude, but also verifies that attitudes have a motivational quality.

Perceived manipulation was not only shown to be non-existent in the shoppers but also independent of the type and cost of gift. Furthermore, though the direct impact of perceived manipulation on shoppers’ intentions to reciprocate is very minimal, it still has, nonetheless, an inverse relationship with shoppers’ level of indebtedness. Perceived manipulation can still dampen shoppers’ intentions to reciprocate through indebtedness. This implies that careful consideration must be given to perceived manipulation when trying to encourage shoppers’ reciprocity.

The study has important implications for retailers. In order to survive, retailers should look for new and creative ways to differentiate themselves by adopting a relationship marketing approach to retailing. Gifts to customers can eat into the profit margins of the retailer. However, it has been found that the cost of gift is not significant in creating indebtedness and favorable attitudes in customers, though the type of gift is. Hence, a retailer can rely on an inexpensive gift to make the customer indebted and favorable to the store just by personalizing the gift, e.g., by gift-wrapping the gift and addressing it to the customer by the customer’s name. Retailers can concentrate their efforts in personalizing gifts in order to maximize the level of indebtedness and positive attitude in the customer towards the store.

**Conclusion**

We demonstrate in this paper that gift giving is a creative tool that retailers can use to retain their customers in the face of intense competition. By personalizing gifts and focusing on building good rapport with customers, retailers can rely on, to a good extent, the innate tendency of the customers to return to the store due to reciprocity. It is hoped that this study will develop awareness among retailers that the power to win back and retain customers through the management of gifts and relationships is within their control.
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INVolvement and ConsuMer perSpection of aSSortment: the Moderating Effects of IndiviDual and situatiOnal factors and produce Category

Shuoyang Zhang, Indiana University, Bloomington

SUMMARY

The belief that assortment benefits consumers is a common assumption in marketing (Cherney 2003). But is it true that more choice is always better? According to classic economic theories, larger assortments should always be beneficial for consumers because they help with a potentially better match between consumer preferences and the product offering. However, more and more recent behavioral research has suggested that increasing the size of the choice set may have adverse consequences on the strength of preferences.

Assortment Perception

“Efficient assortment” has been shown to be important in reducing operating costs, where low-selling stock-keeping units (SKUs) are eliminated from a category’s offerings. Although it is widely recognized that grocery retailers have to control and limit the costs generated by the size of their assortment, they are still reluctant to reduce their SKUs because of the concern that eliminating items would lower consumer assortment perceptions and decrease the likelihood of store choice. Researchers have provided empirical evidence to support “efficient assortment.” For example, Broniarczyk, Hoyer, and McAlister (1998) and Dreze, Hoch, and Purk (1994) have suggested that SKU reductions can result in sales increase. Boatwright and Nunes (2001) indicate that pragmatic cuts can boost sales significantly. Further, Chernev (2003) argues that selections from large assortments can lead to weaker preferences and suggest that the availability of an ideal attribute combination moderates the impact of assortment on consumer preferences.

However, current understanding of assortment is still not complete. Several gaps can be identified from current literature on assortment reduction. First of all, the primary assumption of prior theoretical models is that most choices made in grocery stores are very low in involvement. Second, relative little attention has been paid to individual difference and situational factors that might affect the influence of the cues on consumer assortment perceptions. Third, it remains a question to what extent the findings would generalize to other product categories. In attempt to address the above issues, the present paper proposes a comprehensive model, which takes the level of involvement into consideration and incorporates individual differences and situational factors, product category features. The objective of this research is to investigate the impact of consumer involvement and examine the moderating effects of individual differences, situational factors, and product category features on assortment reduction.

Consumer Involvement and Relevant Factors

It has been assumed in prior research that consumers are unlikely to make active assortment perceptions each time they are at the grocery store because they show a low level of involvement with most of in store decisions (Broniarczyk, Hoyer, and McAlister 1998). Recent empirical evidence in the context of grocery shopping, however, has challenged the assumption that routine shopping is considered invariably to be a low-involvement activity (Beharrell and Denison 1995). The results suggest that routine food shopping for many consumers can be highly involving at times. Therefore, there is a possibility that people with different levels of involvement experience different impact of item reduction on perceived assortment. It is proposed that consumers with higher level of involvement tend to be more sensitive to assortment than consumers with lower level of involvement.

Additionally, individual difference (such as need for cognitive closure and brand loyalty) and situational factors (such as shopping orientation and time pressure) might affect consumer’s perception of assortment. These factors are expected to act as moderators in the relationship of objective cue and consumers’ perceptions of the assortment either directly or indirectly through the level of involvement. Moreover, the degree to which product assortment reduction affects consumer choice and the relative performance of alternative assortment reduction strategies is expected to vary for different types of product categories, because certain features or attributes might make consumers more or less involved in the choice process and thus more or less sensitive to assortment reductions.

Conclusions

This paper attempts to address the issues ignored by previous studies in assortment literature, because assuming grocery shopping as invariably being at a low level of involvement does not allow us to fully understand the
possible differences in assortment perception and purchase behavior. Following the focal issue of involvement, additional variables are included in the conceptual model, such as individual differences, situational factors, and product category. The comprehensive model extends our prior understanding of consumer assortment perception and has significant managerial implications.

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CONSUMER SUSCEPTIBILITY TO INTERPERSONAL INFLUENCE: A CROSS-NATIONAL STUDY

Ying Xie, Rutgers University, Newark

ABSTRACT

The objective of the study is to assess the applicability of the theory of consumer susceptibility to interpersonal influence across different cultural contexts (U.S. vs. Japan). The results show: (1) previous findings were not reproduced in the Japanese sample; (2) Japanese consumers were more susceptible to peer influence than to parental influence, and (3) female consumers were more susceptible to interpersonal influence than their male counterpart in both cultures.

INTRODUCTION

Interpersonal influence has been recognized as a determinant of an individual behavior for a long time. Following Asch and his associates work of group pressure (1952) and Sheriff study of social judgment (1936), a great deal of research has been devoted to the exploration of the various aspects of the interpersonal influence process. Some of them have related the findings on interpersonal influence or reference group influence to consumer behavior (e.g., Bagozzi and Warshaw 1990; Bearden and Etzel 1982; Childers and Rao 1992; Park and Lessig 1977).

Empirical studies show that interpersonal influence plays a significant role in the consumer decision making process. Product conspicuousness, reference group type and family patterns have all been found to have a moderating effect on consumer susceptibility to interpersonal influence (e.g., Bagozzi and Warshaw 1990; Bearden and Etzel 1982; Childers and Rao 1992). However, the majority of these studies have been conducted only in the United States, which raises two questions. First, how applicable is the proposed theory to consumers in other nations? Second and more importantly, do culture characteristics help to explain the differences in consumer susceptibility to interpersonal influence (CSII hereafter) across nations? These questions are the primary inquiries of the current research.

In order to assess the applicability of the theory of CSII across different cultural contexts, we conducted similar experiments in two industrialized countries with contrasting cultural characteristics, Japan and the United States, and contrasted the results. Hypotheses of the effect of product conspicuousness and reference group type on CSII are proposed for consumers from these two countries, based on the national characteristics framework proposed by Hofstede (1980). In addition, the study also examines the gender effect on the degree of CSII among American consumers as well as among Japanese consumers.

CONSUMER SUSCEPTIBILITY TO INTERPERSONAL INFLUENCE

Interpersonal influence has been widely recognized as a determinant of consumer behavior for several decades. Since the 1960, many studies have related interpersonal influence to various aspects of consumer behavior. Some of these studies have focused on the impact of direct social influence on consumer behavior, and have demonstrated there is a tendency for consumers to conform to group norms or to modify their judgment according to others product evaluation under direct reference group pressure. Other researchers have examined how the indirect social influence takes effect through an identification process in a consumer context.

Interpersonal influence can be manifested through either normative or informational influence (Park and Lessig 1977; Bearden and Etzel 1982). A normative influence is defined as an influence to conform to the positive expectations of significant others, while an informational influence is defined as an influence to accept information obtained from other people as factual evidence about reality. Although these two types of interpersonal influences usually operate together, one influence may overweight the other under certain circumstances. Recognizing the existence of different manifestations of interpersonal influence in a consumer context, Bearden and his colleagues therefore defined CSII as he need to identify or enhance one image with significant others through the acquisition and use of products and brands, the willingness to conform to the expectations of others regarding purchase decisions, and/or the tendency to learn about products and services by observing others and/or seeking information from others (Bearden et al. 1989, p. 474). Following this definition, they developed the SUSCEP scale, which will be used later in the empirical section to measure CSII.

Moderating factors, such as product conspicuousness and reference group type, have been shown to have an impact on CSII (Park and Lessig 1977; Bearden and Etzel 1982; Childers and Rao 1992). There are two forms of product “conspicuousness” that could affect the degree of reference group influence on product and brand decisions: exclusiveness and visibility (Bourne 1957). First, a
product can be conspicuous because it is “exclusive” in some way. In this sense, luxuries, unlike necessities, are not owned by everyone, and thus have some degree of exclusivity and are relatively more conspicuous. Second, the occurrence of interpersonal influence on one purchase decision requires that the item under consideration must be visible, one that is “seen or identified by others” (p. 218). In this sense, whether and the degree to which the product is consumed in public or in private would result in a difference in visibility. Bearden and Etzel (1982) have confirmed Bourne proposition that product conspicuousness would affect the degree of interpersonal influence. They found that when making a product decision, the luxury-necessity factor had a significant effect on the degree of peer influence; in contrast, when making a brand decision, a public-private main effect was significant, but no such effect was found for the luxury-necessity factor.

A reference group can be defined as “a person or group of people that significantly influences an individual behavior” (Bearden and Etzel 1982, p. 184). In consumer behavior contexts, reference groups are typically comprised of the significant others in an individual social network, such as parents and peers. Although parents and peers are both significant referents, they may have different degrees of influence on individuals purchase decisions across different product types. Since peers can only observe an individual consumption of public products and easily identify the brand of the product, they exert a relatively stronger influence on brand decisions about public products. Meanwhile, because they barely have a chance to observe the consumption of private products, their influence on this consumption is much weaker (Bearden and Etzel 1982). In contrast, since parents can observe the consumption at home which few of the peers are able to, they will have relatively stronger impact on brand decisions of privately consumed products than the peers, but not on the publicly consumed products. Childers and Rao (1992) examined the interaction between product conspicuousness and reference group type on CSII, and the result supported their hypotheses that the peer-based referent group had relatively stronger influence on the brand choice of public products, while the familial referent group had relatively stronger influence on the brand choice of private products. This hypothesis will be tested in the current study using consumer samples from a different culture context. Therefore, we have the following hypothesis.

H1: Peers have stronger influence on the brand choice of public products, while parents have stronger influence on the brand choice of private products.

### NATIONAL CULTURE

Culture plays an important role in shaping people personality through the socialization process, and consumers from different cultures may have different degrees of susceptibility to interpersonal influence. Therefore, the effect of moderating factor on CSII might vary across different cultural context. Next, we will link the national culture concept to the notion of CSII, based on Hofstede national characteristics model (1980). In his model, four dimensions underlying the national culture construct are identified. They are individualism, uncertainty avoidance, masculinity, and power distance. Japan and the United States are chosen for the current study because these two countries are distinctive in almost all dimensions with the only exception of the masculinity dimension where both countries score higher than the mean across all countries. The indices are shown in Table 1.

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Range</th>
<th>Mean</th>
<th>Japan</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individualism</td>
<td>13–91</td>
<td>50</td>
<td>46</td>
<td>91</td>
</tr>
<tr>
<td>Uncertainty Avoidance</td>
<td>8–112</td>
<td>64</td>
<td>92</td>
<td>46</td>
</tr>
<tr>
<td>Masculinity</td>
<td>5–95</td>
<td>50</td>
<td>95</td>
<td>62</td>
</tr>
<tr>
<td>Power Distance</td>
<td>11–94</td>
<td>52</td>
<td>54</td>
<td>40</td>
</tr>
</tbody>
</table>

The dimension of individualism reflects the relation between an individual and his or her fellow individuals, more specifically, the degree to which individual decision making and actions are encouraged by the society (Hofstede 1980). Empirical studies found that consumers from individualistic societies are more confident and independent than those from collective societies (e.g., Radford et al. 1991). They are less likely to seek opinions from their peers, families, or whatever groups they belong to, because the individualistic societies encourages the members to rely on themselves and make their own decisions. American culture is more individualistic than Japanese culture. Therefore, we propose the following hypothesis.
H2: American consumers are less susceptible to normative interpersonal influence than Japanese consumers.

Uncertainty avoidance involves the way societies deal with the fact that the future is unknown and always will be (Hofstede 1980). Societies with low scores in this dimension socialize their people to accept the fact and not become upset by it. People in these societies, are more tolerant of various behaviors and opinions and feel relatively secure. At the other end, there are societies in which people feel anxious and less secure, actively avoid risk and plan for the future, and try to create a sense of control. They rely on technology, law and religion to protect them against the uncertain future. In high uncertainty avoidance countries, family members, friends, colleagues, acquaintances and other significant groups are all salient and convenient sources for information. Japanese culture scores much higher than American culture in the uncertainty avoidance dimension. Therefore, we propose the following hypothesis.

H3: Japanese consumers will be more susceptible to informational interpersonal influence than American consumers.

The dimension of masculinity reflects the division of roles between the sexes in societies (Hofstede 1983). Male customers in masculine cultures tend to be more confident and more independent than female customers, therefore they are likely to be less susceptible to interpersonal influence when making a purchase decision (Sood and Nasu 1995). While in more feminine countries, there are no such gender differences in consumer susceptibility to interpersonal influence. Both American culture and Japanese culture has a higher than average score in the masculinity dimension, therefore, we propose the following hypothesis.

H4: The female consumers are more susceptible to interpersonal influence than their male counterpart in both countries.

Power distance is defined as “the strength of the need for dependence on more powerful people among the adult members of a society” (Hofstede 1984, p. 394). Societies characterized by large power distance tend to be hierarchical with rigid social status structure. Subordinates in such societies have strong dependence needs upon superordinates. When making a decision, they are more likely to consult their superordinates and to comply with the superordinates opinions. In parent-child relations, politics, religion, and economics, the same superordinate-subordinate pattern applies. At the other end, societies with relatively small power distances tend to value equality, and it is believed that everybody should have a say. Therefore, we hypothesize that in a society with large power distance, such as Japan, the parents are perceived to have authority over their children, and their opinion will exert more influence on their children purchase decision than that of the peers. We do not expect such a main effect for reference group in a society with small power distance, such as the United States.

H5: Japanese consumers will be more susceptible to parental influence than to peer influence.

**STUDY DESIGN**

In order to examine the applicability of the theory that product conspicuousness and reference group type have a moderating effect on CSII across different cultural context, a study similar to Childers and Rao (1992) is to be conducted in the United States, and it will also be replicated in Japan. The results of these two experiments will then be compared and contrasted to provide evidence for the proposed hypotheses. We conducted a 2 x 2 x 2 randomized block factorial experiment in the United States, with product conspicuousness and reference group types as the independent variables, gender as the blocking variable, and CSII as the dependent variables. The same experiment was replicated in Japan. A pretest with thirty undergraduate students was first conducted in both countries in order to select a pair of products to operationalize the construct of product conspicuousness. Based on the pretest result, four shopping scenarios were constructed and provided in the questionnaires in order to simulate the real consumption situation. Two hundred undergraduate students from U.S. and two hundred undergraduate students from Japan were invited to participate in the study on a voluntary basis. The participants were randomly assigned to each of the 8 experimental cells, and then were instructed to complete a self-administrated questionnaire. Multivariate analysis of variance was used as the major statistical method for data analysis.

Two independent variables were manipulated in the study. They were product conspicuousness (public vs. private) and reference group type (parents vs. peers). A wristwatch and a blanket were chosen as the products to operationalize product conspicuousness, based on the pretest results. To make sure the operationalization was successful, a manipulation check was conducted at the end of the main study using a six-point measurement scale of “public vs. private.” Two types of reference group influence were examined in this study: parental influence vs. peer influence. The reference group type was manipulated as the presence of parents or college friends at the shopping scenario provided for the subjects. College friends were chosen to operationalize the peer group construct, because the subjects for this study were undergraduate students and the most relevant peer group for them at this stage was presumed to be college friends.
The dependent variable in this study, CSII, was measured by a modified version of consumer susceptibility to interpersonal influence scale (SUSCEP) (Bearden et al. 1989). SUSCEP is a 12-item, 7-point Likert scale instrument composed of two dimensions: susceptibility to normative influence and susceptibility to informational influence.

A self-administered questionnaire was used to measure Japanese and American consumer susceptibility to interpersonal influence when making a brand decision. Since the study involved two cultures, the English version of the questionnaire was translated into Japanese to produce a Japanese version of the questionnaire, which was used in the experiment conducted in Japan. To ensure the translation would not result in any inconsistency between these two versions, the back-translation procedure was employed before the survey was conducted. Two professionals who are fluent in both English and Japanese participated in the procedure. One translated the English version into Japanese, and the other one then translated the Japanese version back to English. Few inconsistencies between the original English version and the back-translated English version were found, and then discussed and resolved by the two professionals.

**ANALYSIS AND RESULTS**

Since the dependent variable for the study, SUSCEP, is a two-dimensional construct, multivariate analysis of variance (MANOVA) was used to test the hypotheses for the study.

Subjects responses to two manipulation check questions were examined using t-tests. For both the American and the Japanese sample, the wristwatch was rated by the subjects as significantly different from blanket on the dimension of public vs. private product (p < .001 for both samples), while not significantly different on the dimension of luxury vs. necessity (p > .132 for the American sample, p > .245 for the Japanese sample). Thus, the manipulation of the independent variable was successful and consistent with previous research.

Subjects were asked to evaluate how much they were influenced by other people when making purchase decisions described in the scenario on the 12-item, 7-point SUSCEP scale. A principal component analysis revealed that these items loaded on two components. Cronbach alpha was computed at the component level (normative, \( \alpha = .907 \) (American) and \( .883 \) (Japanese); informational, \( \alpha = .746 \) (American) and \( .753 \) (Japanese), respectively). Thus, two evaluation scores were computed for each subject, one by averaging the responses to the eight items that are loaded on the normative factor, and the other by averaging the responses to the four items that are loaded on the informational factor, such that higher scores indicate more susceptibility to interpersonal influence.

For the American sample, since age, major and job were found to have significant correlation with the dependent variables in preliminary analysis, they were included in the MANCOVA model as covariates. The results were presented in Table 2. Among the three covariates, only job was significant as a covariate at \( \alpha = 0.05 \) level \((F(2,188) = 3.32, p < .04)\), which suggested that students with part-time jobs were significantly more susceptible to interpersonal influence than those without part-time jobs. The MANCOVA analysis yielded a significant main effect for gender \((F(2,188) = 2.99, p < 0.05)\). The pattern of the result indicated that American female consumers are more susceptible to interpersonal influences than their male counterpart, consistent with H4. The results also reveals a significant main effect for reference group type \((F(2,188) = 3.00, p < 0.05)\) such that American consumers are more susceptible to peer influence than to parental influence. This main effect is qualified by a significant two-way interaction of product conspicuousness and reference group type \((F(2,188) = 2.32, p < 0.10)\). Univariate tests revealed that this two-way interaction had a significant effect on both informational factor \((F(1,189) = 6.505, p < .05)\) and the normative factor \((F(1,189) = 4.313, p < 0.08)\). The result supports H1, which confirms the findings in Childers and Rao (1992).

For the Japanese sample, no covariates were used in the final analysis because none of them were found to have significant correlation with the dependent variables in the preliminary analysis. The results were presented in Table 3. The MANOVA analysis yielded significant main effects for all three factors, i.e., product conspicuousness \((F(2,191) = 15.86, p < 0.01)\), reference group type \((F(2,191) = 16.57, p < 0.01)\), and gender \((F(2,191) = 3.70, p < 0.03)\). The hypothesized two-way interaction between product conspicuousness and reference group type was not statistically significant at \( \alpha = 0.10 \) level \((F(2,191) = .823, p > .440)\), therefore, H1 was not supported. The main effect of product conspicuousness was significant at \( \alpha = 0.05 \) level \((F(2,191) = 15.86, p < 0.01)\), such that Japanese consumers were found to be more susceptible to interpersonal influence when they purchased a private product than when they purchased a public product, no matter whether the influence was from peers or from parents. The main effect of reference group type was also found to be significant \((F(2,191) = 16.572, p < 0.001)\), however, the direction of the relationship was opposite to H5: the Japanese subjects were in fact more susceptible to peer influence than they were to parental influence. Consistent with H4, the analysis revealed a significant main effect for gender \((F(2,191) = 3.70, p < 0.03)\). Japanese female consumers were found to be more susceptible to interpersonal influence than were Japanese
male consumers. This main effect was qualified by a significant two-way interaction between reference group type and gender at $\alpha = 0.10$ level ($F(2,191) = 2.93, p < 0.06$). Japanese male consumers were found to be more susceptible to peer influence than to parental influence, while such a difference was not found for Japanese female consumers.

Finally, the eight experiment cells were collapsed in order to compare the SUSCEP scores across the two samples. The one-way MANCOVA analysis with year in school as the covariate yielded a significant main effect for nationality at $\alpha = 0.05$ level ($F(2,396) = 4.636, p < .01$). However, further exploration of the data using univariate tests revealed that only normative factor was marginally significant at $\alpha = 0.10$ (informational: $F(1,397) = .913, p > .34$; normative: $F(1,397) = 3.064, p < .08$). Therefore, H2 was supported, while H3 was not supported by the data.

By and large, the hypotheses testing results are mixed: H2 and H4 were confirmed by the data; H3 and H5 were not supported; while H1 was supported in one of the two experiments. This is not a very surprising finding though, after considering that the two major studies (Bearden and Etzel 1982; Childers and Rao 1992), on which H1 was built, were both conducted in the United States, therefore, their conclusions may not be generalizable to other cultures, such as Japan. Also, the national characteristics model (Hofstede 1984), which was used in this study as the theoretical foundation for cultural comparison, has not been updated recently. More importantly, the dimension scores of the two cultures, which were drawn from a factor analysis of an IBM employee survey in late 1960, were

<table>
<thead>
<tr>
<th>TABLE 2</th>
<th>MANCOVA Table for the American Experiment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>Wilk's Lambda</td>
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<tr>
<td>Age</td>
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</tr>
<tr>
<td>Major</td>
<td>.999</td>
</tr>
<tr>
<td>Job</td>
<td>.966</td>
</tr>
<tr>
<td>Product (P)</td>
<td>.989</td>
</tr>
<tr>
<td>Reference (R)</td>
<td>.969</td>
</tr>
<tr>
<td>Gender (G)</td>
<td>.969</td>
</tr>
<tr>
<td>P x R</td>
<td>.976</td>
</tr>
<tr>
<td>P x G</td>
<td>.993</td>
</tr>
<tr>
<td>R x G</td>
<td>.986</td>
</tr>
<tr>
<td>P x R x G</td>
<td>.992</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>TABLE 3</th>
<th>MANOVA Table for the Japanese Experiment</th>
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</thead>
<tbody>
<tr>
<td>Source</td>
<td>Wilk's Lambda</td>
</tr>
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<td>Product (P)</td>
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</tr>
<tr>
<td>Reference (R)</td>
<td>.852</td>
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<tr>
<td>Gender (G)</td>
<td>.963</td>
</tr>
<tr>
<td>P x R</td>
<td>.991</td>
</tr>
<tr>
<td>P x G</td>
<td>.990</td>
</tr>
<tr>
<td>R x G</td>
<td>.970</td>
</tr>
<tr>
<td>P x R x G</td>
<td>.993</td>
</tr>
</tbody>
</table>
quite old, and thus may not capture the cultural changes in American and Japanese consumers, especially the particular sample we use in this study, the undergraduate students. Being part of the global MTV generation, teenagers in all wealthy industrialized countries now-a-days exhibit similar behavior. This fact contributes partly to our not finding a significantly higher susceptibility to interpersonal influence among the Japanese participants.

LIMITATIONS AND FUTURE RESEARCH

The current research links the theory of consumer susceptibility to interpersonal influence with Hofstede national characteristics model, and provides empirical test for the applicability of the theory across different cultural context. The findings are important and valuable in advancing, expanding and updating our knowledge about consumer susceptibility to interpersonal influence across different national cultures, which is the key contribution of the current study.

The current study has several limitations. First, only two types of reference groups, parents and peers, were studied. Other types of reference group were left out of the current research. Future research that looks other types of reference groups would be useful to provide a more complete understanding of the reference group effect on CSII. Secondly, the American experiment and the Japanese experiment were not conducted by the same administrator, largely due to the budget constraint and time constraint. This limitation might have induced some biases into the study.

Another concern is about the pretest. Largely following the pretest procedure in the previous studies, the investigator did not include a “buying experience” check in the pretest, which might be a major reason that we could not find support for H1 in the Japanese sample. During an informal after-survey talk with some participants, it was found that not many of the Japanese college students have ever bought blankets by themselves before, and even fewer of them have much knowledge about various brands of blankets, although they use the blanket a lot at home. As a result, they were more likely to consult or simply follow others when they made their brand decision on the blanket. If another product was chosen, one that student participants have more buying experiences with, to operationalize the “private product” construct, then the hypothesized interaction effect among the Japanese consumers may be present.

Last but not least, due to time constraints, only one pair of products was used to operationalize the construct of product conspicuousness in this study, which causes two problems: (1) the operationalization is not complete since one pair of products might not fully capture the essence of the construct; (2) the study findings might not be generalizable to other product categories. Future research can address these problems by including multiple pairs of products in the empirical examination. We can also extend the research to examine the CSII in other product dimensions, such as consumer involvement (high/low) and product benefits (utilitarian/hedonic).

MANAGERIAL IMPLICATIONS

Marketing managers have to be aware that consumers are susceptible to interpersonal influence, and that they consult others and even follow others when making purchase decisions. Moreover, the degree of susceptibility is moderated by many factors, and national culture is one of these moderators. Marketing managers in multinational business should be extremely cautious in applying the common marketing practice used in the United States to other countries, because consumer behaviors are very culturally sensitive and vary vastly from country to country. As in the current study, it has been demonstrated that the pattern of change in consumer susceptibility across various factors was different in American culture from that was in Japanese culture.

We found a significant interaction between product conspicuousness and reference group type in the American experiment. Based on this finding, advertising managers should design advertisement themes for different products using members from different types of reference groups as the inspirational figure. For example, a “mom” would be a good spokesperson for detergent or cookie mix, but might not be persuasive in recommending PCs. Another interesting finding of the current research is that Japanese youth consumers are susceptible to peer influence than to parental influence. Companies who target young consumers have to pay special attention to this finding when they launch their marketing campaigns in Japan, and should design their marketing strategies accordingly.

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SOCIAL ALIENATION IN A TRANSITIONAL ECONOMY

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Summary

Social alienation is the assortment of bad feelings aroused by work and the whole of society (Schwalbe 1986). Albeit the abundant prior research on the topic, it is still unclear what factors lead to social alienation in a country where the system is in transition or is in a process of merging communism and capitalism (Agarwal 1993; Seeman 1991; Jun, Gentry, and Hyun 2001). To fill this research gap, we study the important factors that cause social alienation in China, the world’s largest transitional economy. Further, one consequence of social alienation, the attitude toward reform is examined.

Research Hypotheses

Based on literature review, a model was constructed in which we proposed that institutional factors, organizational variables, and personal factors are all significant contributors to social alienation. We also proposed that these factors can impact social alienation indirectly through job satisfaction. Moreover, we proposed that social alienation will affect people’s attitudes toward China’s economic reforms and open door policy. Specifically,

H1a: Employees in state-owned firms possess a lower level of job satisfaction than those in non-state-owned firms.

H2a: Employees in state-owned firms possess a higher level of social alienation than those in non-state-owned firms.

H1b: Employees in more developed regions possess a higher level of job satisfaction than those in less developed regions.

H2b: Employees in more developed regions possess a lower level of social alienation than those in less developed regions.

H3: Organizational culture with an innovative orientation and a facilitative leadership leads to a high level of employee job satisfaction.

H4: An organizational culture with an innovative orientation and a facilitative leadership leads to a low level of employee social alienation.

H5a: The higher the education, the higher the job satisfaction

H5b: Managers possess a higher level of job satisfaction than non-supervisory employees.

H5c: The higher the income, the higher the job satisfaction.

H6a: The higher the education level, the lower the social alienation.

H6b: Employees in management positions have a lower level of social alienation than those in non-supervisory positions.

H6c: The higher the income, the lower the social alienation.

H7: The higher the job satisfaction, the lower the social alienation.

H8: The higher the social alienation, the more negative the attitude toward reform.

Methodology

Through a multi-stage sampling procedure, a sample of 3960 employees with 4 positions from 180 firms in 9 major cities in China was obtained. Most measures used in the survey were adapted from established studies and some were developed especially for this study. All the scales were professionally translated with back translation to ensure conceptual equivalence (Mullen 1995). The sample was randomly split into two sub-samples. An exploratory factor analysis was first conducted for each construct using one sub-sample. Then, each multi-item scale was subjected to inter-item correlation tests to delete poorly-fitting items. Finally, using the other sub-sample, a confirmatory analysis with constructs correlated to each other was run to assess the internal consistency and validity for each scale.

Results of the confirmatory factor analysis indicated that the measurement model fit the data well ($\chi^2 (620) = 3570.61, p = .00; GFI = .90, CFI = .93; RMSEA = .05$). Factor loadings for all constructs were significant and valued .43 or above. Composite reliabilities ranged between .71 and .94, well above the .60 threshold (Bagozzi
and Yi 1988). Further, the correlations between the constructs were all significantly below 1.0, suggesting good discriminant validity of the measures (Phillips 1981). Thus, all the measures possess satisfactory reliability and validity.

**Results**

The model was tested using structural equation modeling with maximum likelihood estimation via AMOS 4.0 (Arbuckle and Wothke 1999). Results showed that the model fit the data adequately ($\chi^2 (860) = 8442.00, p = .00; \ GFI = .90, CFI = .91; \ RMSEA = .05$). An examination of the path coefficients indicate that all hypotheses except for H1a, H2a, and H5a are supported.

**Conclusion**

As the first study to examine comprehensively the issue of social alienation in China, this study offers good contribution to the literature. Our results show that institutional, organizational, and personal factors all contribute to social alienation. It seems that economic development and market system have reduced social alienation. That is to say, different ownership leads to a different organizational culture which further results in difference in employee job satisfaction and social alienation. Further, people with high alienation tend to hold negative attitude toward the reform in China. References available upon request.

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SUMMARY

In a competitive marketplace, retailers are constantly striving to improve their understanding of the consumption motives, with a view to stimulating purchases by consumers (Markin et al. 1976; Chain Store Age 2004) and turning them into loyal customers. Academic research in the area of retailing has explored the influence of store design and ambience on consumer purchase behaviors, including the number of items purchased in the store, time (Wakefield and Baker 1988) and money spent there (Donovan et al. 1994; Sherman et al. 1997) as well as satisfaction and the intention to return to the store in future (Spies et al. 1997).

While the focus of the popular S-O-R framework introduced by Donovan and Rossiter (1982) has been on the influence of store atmosphere on purchase behaviors, alternative models have been proposed and shown to be efficacious (Chebat and Michon 2003). For instance, the Consumer Retail Search Process (CRSP) model offered by Titus and Everett (1995) is based on the premise that when consumers are confronted by the complex environment of a retail store, they need to develop appropriate navigational strategies to physically search through the store and accomplish their objectives. According to this model, epistemic and hedonic search strategies employed by the consumer lead to satisfaction with the shopping experience.

The present research explores the influence of store atmosphere on the search strategies employed by consumers and their satisfaction with the shopping experience. Having examined the relationship of consumer satisfaction with utilitarian and hedonic values, Babin et al. (1994) wondered whether the high level of hedonic value observed in the U.S. context could be matched in the developing countries. The research reported here attempts to address this issue, by testing the proposed model in Singapore, a fast-developing Asian country.

Conceptual Framework and Hypotheses

According to the CRSP model, the influence of environmental design characteristics (store atmosphere) on shopper satisfaction is mediated by the navigational search strategies adopted by the consumers. Epistemic and/or hedonic search strategies are adopted by consumers to varying extents, in order to facilitate their search through the store. The following are the hypotheses tested in the present study:

H1: Orientation aids, store layout and merchandise arrangements influence the amount of epistemic search carried out by the consumer
H2: Orientation aids, store layout and merchandise arrangements as well as color and music influence the amount of hedonic search carried out by the consumer
H3: The influence of orientation aids, store layout, merchandise arrangements, color, and music on consumer satisfaction with shopping is mediated by the epistemic and hedonic search strategies employed by the consumers

Methodology

Two supermarkets in Singapore, one, a branch of the NTUC FairPrice chain, and the other, then recently opened French hyper-market Carrefour, constituted the setting for the current study. Shoppers exiting the stores were approached by the interviewers who requested them to participate in a survey being conducted by university students, for course credit. Two hundred usable responses were gathered. The items measuring store atmosphere (design characteristics) were drawn from store image studies reported in the retail literature and the epistemic and hedonic search strategy items as well as customer satisfaction scale items were derived from the shopping value questionnaire developed by Babin, Darden, and Griffin (1994). All items employed 7-point Likert scales, for the sake of consistency. The questionnaire was pre-tested with a sample of 25 respondents and modifications were made to the questionnaire, on the basis of the pretest results. The reliability coefficients range from 0.60 for epistemic strategies to 0.87 for orientation aids/signs, with most exceeding the acceptable 0.70 level.

Analysis and Results

Structural equation modeling was employed for the purpose of testing the hypotheses developed earlier. EQS program for Windows was employed to test the model. Maximum Likelihood Estimation procedure was utilized...
for model testing. While the chi-square statistic of 355.68 (p < 0.01) indicates a poor fit, the other fit indices lead to a different conclusion. The Bentler-Bonett non-normed fit index of 0.91, comparative fit index of 0.93, LISREL GFI of 0.87 and RMSEA of 0.06, suggest that the fit of the data to the model is acceptable.

The results show that only the orientation aids have a statistically significant influence on epistemic search strategy. In contrast, the relationships of orientation aids, layout as well as music, on hedonic search strategies are statistically significant. It appears that the relationship of atmosphere with hedonic search strategy is stronger than its relationship with epistemic search strategy. Customer satisfaction appears to be significantly influenced only by two variables. The strongest influence is from hedonic search strategy, whereas orientation aids also have a significant relationship with customer satisfaction. The CRSP model receives partial support from the results of the present research. References available upon request.
AN OVERVIEW OF NETWORK EFFECTS

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SUMMARY

Network effects exist when users, who are utilizing products or services of a system for some benefit, receive more value, e.g., economic utility, from these benefits as the number of users increases within the system. “Network” is defined as an interconnected or interrelated chain, group, or system. The word “system,” derived from the Greek word, *systema*, means “to combine.” The study of network effects began vis-à-vis the scholarly and practical interest of economics and social sciences in order to explain the effects observed in such systems. Industries such as railroads, telephone, and computer and Internet exhibit obvious network effects. Social networks such as communities of people illustrate network effects in their systems as well. Further explorations of networks and their impact have extended into other domains, such as the legal system and its decision-making processes. As global markets become pervasive and technology innovations increase the ability of users to become more interconnected, the phenomena observed in various markets that exhibit network effects has received increased interest from many fields of study.

Networks exist in two forms, real and virtual networks. Real networks are physical networks where the interconnections between users are tangible. Common examples of real network industries are the communications networks that serve telephone or fax users, the electrical grid system, which connects power users to the network, or the Internet, which allows users to connect to the World Wide Web or conduct interactions with each other, such as sending or receiving email.

Virtual networks have interconnections between users that are intangible and users remain interdependent. The most obvious virtual industry is typified by a software platform network. Other examples are the virtual networks of video games such as Sony Playstation, Microsoft Xbox, and other entertainment platforms where the hardware may be purchased, and it will only interact with software designed to work specifically with the proprietary hardware.

Borrowing from social science, a virtual network may also consist of people who transmit information or form information channels based upon contact with other agents (people) within the community. Examples of quotes in a social context include: “There are no secrets in a small town;” “It’s not what you know, but who you know;” “Did you hear about so and so?” These indicate that interaction between members of the system occurs, but visible connections may not be readily apparent to the outside (and sometimes, inside) observer. Such examples imply a virtual (“word of mouth”) network within a social context when restricted to a local community, small circle of professionals, or other social group. However, the players make a point that the information in itself may or may not have any value. In the case where information facilitates economic transactions between two parties, the information then contains explicit value, providing benefits to the parties in this network.

Network effects are not new and possible issues specific to network effects have a three-fold impact. The first is that antitrust, intellectual property, and other litigation takes on a new perspective – mainly that of understanding the impact of network effects on the judicial system. Network effects, in some cases, contradict the traditional thoughts of courts and how they rule to settle disputes. Secondly, legal processes may benefit from network capable products or processes such as contract terms and tort law development that can exhibit network effects, which may assist in future legal decision making processes. This demonstrates that network effects, first observed in social science and economic fields of study, extend into other fields other than the traditionally observed areas. Moreover, while the positive effects of networks have been studied in some detail, more study of negative impacts of network and network goods may be conducted as well.

This leads into the third point: Network effects not only should be examined from legal, social, or economic point of views, but also include other areas of study in addition to viewing it from a perspective of other users of a network or network good. This may include further
investigation from a consumer point of view related to the consumers’ power to influence acceptance of standards versus what the industry proposes, especially, as rivals strive to gain critical mass. It may also include how a firm can study and understand network effects in markets that exhibit these effects to increase its effectiveness to compete.

Network effects have been observed, described, and explained in many situations. However, if stringent theoretical models or working, truly practical models of these effects exist, they seem to be limited in number. A model that considers operating in a competitive environment that displays network effects, which shows how a firm could reach critical mass and lock-in, would prove extremely valuable. The legal system, consumer advocate groups, and other participants of markets or systems would find this useful in guiding future decision making processes or taking action. So far, qualitative and quantitative or empirical studies have addressed various effects or aspects of network effects themselves, but an overall model that encompasses a comprehensive understanding that describes network effects thoroughly, both quantitatively and qualitatively, does not readily appear on the scholarly landscape. Perhaps, this is impossible. Regardless, network effects exist in many environments and display different impacts to these systems and system participants. Further understanding of these effects should be considered not only from a theoretical, but also from the stance that understanding network effects possesses practical value. References available upon request.

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ONLINE MARKETING OF GAMBLING IN THE U.S. AND THE EU:  
REGULATION, EVASION, AND LITIGATION

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SUMMARY

This paper examines the regulatory environment of the rapidly growing market for online gambling in the U.S. and selected European countries and the implications for marketing and for public policy. The legality of online marketing of gambling however, is still largely undefined and in flux, both in the U.S. and in the EU. Online casinos rely mainly on promotion and product variety to develop a unique “brand image” that will appeal to various types of gamblers. Some of the main concerns voiced by critics and by government authorities are the greater potential for fraud, for addiction and for offshore operations as compared to land-based gambling. Ultimately, legislators in the U.S. and elsewhere will have to decide whether to ban this marketing practice or to regulate it.

Introduction

The attempts at prohibition of gambling online by the U.S. government is being undermined by aggressive marketing efforts of a rapidly growing $7.4 billion online industry with over 1500 websites worldwide. The U.S. government’s intent is to prevent or limit fraud, money laundering, youth gambling and addictive behavior. Regulatory attempts are often confusing and have thus far met with limited success. Who is vulnerable and which operators benefit? Is there a lack of supervisory controls over the Internet? What marketing practices are prevalent? Can and should online gambling be prevented? This paper examines these questions with their marketing and policy implications.

Regulatory Issues

The Commerce Clause of the U.S. Constitution authorizes the federal government to regulate interstate and international gambling. Intrastate gambling is a matter of state law. There is much ambiguity and uncertainty regarding the legality of online gambling. The causes are rooted in outdated laws, conflicting court decisions, unresolved disputes, failure of Congress to pass pertinent legislation, confusing and changing state laws, and the uncertain status of web casinos on Indian lands. The World Trade Organization has recently added to the confusion by a panel ruling that U.S. laws that restrict Internet gambling violate a global (free trade) services agreement.

In the EU and selected other countries, the situation is similarly confusing, conflicting and in flux for some of the same reasons. In the U.K., for instance, parliament is considering legislation to allow Internet gambling. The European Court of Justice and a Dutch court have made (respectively off-line and online) rulings regarding gambling against Italy and the Netherlands that are very much in agreement with the WTO ruling against the U.S. In Canada a similar restriction is being challenged in court while Australia has recently reversed itself by passing legislation banning online gambling. In contrast, South Africa is considering legalizing such.

Marketing Implications

Many online operators rely mainly on promotion and product variety for developing a “brand image” to differentiate their operations from other gambling websites. Gamblers are usually attracted to sites through pop-up advertisements over the Internet or visit an online site through a search engine. A variety of marketing appeals attract different market segments, e.g., younger casual gamblers may be attracted by appeals to luck. Some critics have argued that online gambling presents a greater potential for fraud and marketing abuse of the under-aged, of the poor and of addicts than does land based gambling. For example, the design of an online gambling website prevents gamblers from determining whether the site is operated fairly.

Public Policy Actions

Both the federal and individual state governments have a keen interest in gambling, not only because of the tax revenue that is generated but also because of social concerns. States already allow some forms of online gambling such as lotteries while some Indian reservations operate online casinos. Several abortive attempts have been made by Congress to pass legislation dealing with Internet gambling. The specific aim of that legislation is to limit access of Americans to offshore and to Indian reservation websites by denying them ready means of payment. The general thrust of this effort is intended to combat the dangers of illegal gambling activities and the associated risks for the U.S. consumer, e.g., the underage youth with access to his or her parents’ debit or credit cards.
Conclusions

The marketing of online gambling has been immensely successful measured by the revenues being generated and by its tremendous growth in popularity. The allure of the “product” itself and of its many variations, fortified by the growing popularity of land-based gambling in all its forms and by its convenient online access, has greatly simplified and enhanced the marketing efforts of online operators, especially the cultivation of a “brand image.” Scant attention is being paid to weed out vulnerable consumers or to abide by any regulations except those of the host country or authority. Legislators in the U.S. and other major gambling consumer countries have to choose between two fundamental alternatives, to ban it or to properly regulate it. References available upon request.

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DEVELOPING FAIR TRADE MARKETS: A NEW OPPORTUNITY FOR SOCIAL MARKETING?

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SUMMARY

Expansion of Fair Trade (FT) commodity markets is vital for sustainable development and quality of life in many poorer countries. Coffee is central to the development of FT, since it represents around 60 percent of total sales, and because it is a product with great social and symbolic significance. It is also economically important as the second most widely traded global commodity after oil. The main coffee consuming nations are amongst the world’s richest, while the largest producer nations of Brazil, Vietnam, Colombia, Indonesia, and Mexico, are amongst the poorest. These poor producer nations currently face an economic, social, and environmental crisis linked to the recent collapse in world coffee prices to 100 year lows in real terms.

A growth in FT coffee is seen as a solution to many of these problems since it channels more of the earnings from sales back into producer communities. Achieving this represents a major market-building challenge. Currently, despite the growth in FT consumption (of 42.3% globally for all FT goods between 2002–2003), only about half of FT coffee produced is sold as FT, the rest simply enters the broader market (Hudson and Hudson 2003). Building FT markets presents many marketing challenges, but from a marketing and consumer behavior perspective, FT markets remain under-researched and poorly understood compared to the mainstream.

The early growth in FT coffee was achieved through an emphasis on its social credentials. More recently, growth has been achieved by balancing this with a greater emphasis on “commercialization” and on issues such as product quality, branding, and consumer perception. Conventional wisdom has tended to view the further integration of conventional marketing concepts and practices with FT production and distribution strategies, as the key to successful future market development. This, however, entails a number of risks relating to:

1. The dangers of bringing small, FT brands into more direct competition with the powerful, entrenched market leaders, with their established brands and large marketing budgets;

2. A reduction of the ethical dimensions of FT brands from a core value to a product augmentation, which may lead to them being regarded by consumers as little different to mainstream brands (Raynolds 2000). Most mainstream manufacturers are either developing brands which are linked to a specific social or environmental issue (such as rainforest protection), or are seeking to promote themselves as socially responsible organizations;

3. A mismatch between increasingly commercially orientated marketing strategies and the cultures within the Alternative Trade Organizations (ATO) that market FT products (Tallontire 2000). Those joining ATOs do so because they want to promote FT, not because they want to market great-tasting coffee.

An alternative approach to looking to commercial marketing to understand how better to market the coffee that FT producers provide, is to look to the discipline of social marketing to understand how to better market and grow the concept of FT itself. Social marketing, applies a customer orientated approach, and commercial marketing techniques, in pursuit of social goals (Andreasen 1995). Although predominantly used in the healthcare field, social marketing is emerging in many other fields linked to social and environmental well-being. Social marketers use a social marketing mix, and have adapted the traditional “Four Ps” to fit a social context. Although social marketing campaigns can involve the promotion of a tangible product (such as safety belts) it more usually focuses on a behavior (such as recycling, voting, or not smoking). A more useful P for social marketers to use instead of product, is “Proposition” since the social marketer seeks to encourage their targets to buy into a particular idea (Peattie and Peattie 2003).

The applicability of social marketing principles and practices to the development of FT markets is illustrated by asking the question “What is the Fair Trade coffee consumer being asked to buy?” The answer is not really the coffee, since that is the means to an end. The consumer is being asked to buy into the idea of a fairer and more sustainable world as a social proposition. This may not seem very different to conventional marketing, where the consumer would be viewed as buying into a lifestyle, or an idea like “indulgence.” The key difference in FT marketing is that the central social proposition involves benefiting others rather than purely benefitting the consumer. “It unveils for northern consumers the people, places and
relations behind the commodity, helping launch the politically crucial leap from passive consumerism to active engagement” (Hudson and Hudson 2003).

Fair Trade products are perhaps best conceptualized as a blend of social and conventional commercial characteristics, just as FT can be viewed as involving a blend of normative and economic objectives. Typically, the literature discusses social and commercial products in terms of a dichotomy (much as physical products and services were viewed as a dichotomy before key papers such as Shostack’s 1977 paper “Breaking Free from Product Marketing”). A more constructive approach may be to envisage products as a continuum, with the purely commercial and purely social at either end, and different blends of the social and commercial in between. Successful FT market development will come, not from choosing between a commercial or social approach, but from getting the right balance between the social and commercial. This fine balance has underpinned the success of FT brands like CafeDirect. It has been able to compete on price and quality with the brand leaders, through mainstream outlets, to become the sixth largest U.K. coffee brand (Zadek et al. 1998). This market penetration has been achieved without abandoning the social mission, and retaining for the product “a clear ‘raison d’être’ way beyond normal product selling propositions” (Tiffen and Zadek 1996). References available upon request.

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THE ELECTRONIC MARKETPLACE MECHANISM AND “LEMONS” PROBLEM

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SUMMARY

In the electronic marketplaces, a significant portion of items for sale are used items such as electronics and books. The quality of used items usually varies substantially. In most cases, the seller has more information about the used items. By contrast, the buyer has limited information and this leads to an asymmetric information problem in the used product market. In the electronic marketplaces, as buyers cannot directly inspect the used items, information asymmetry is even more severe. Asymmetric information leads to adverse selection, and finally causes the used goods markets full of poor quality items, which are called “lemons” (Akerlof 1970).

However, the current electronic marketplaces have two significant features that might alleviate such the “lemons” problem. The first feature is that the electronic marketplaces have one dynamic online evaluation system. Before he/she makes a purchase decision, the buyer can refer to previous buyers’ evaluations on the seller. After the buyer receives and has sufficient information of the used item, he will assign the seller his evaluation, which is public to future buyers in the current electronic marketplace environments. Therefore, unlike the conventional used goods market in which the transaction between the buyer and seller is a “one-shot deal,” the online electronic marketplaces provide a dynamic environment to market participants. Under this mechanism, when the seller sells used items in the current period, he needs to consider what kind of feedback he will get from the buyer in the next period, and this feedback might affect his future sales. The second feature of electronic marketplaces is that the buyer has more channels to get prior information about the seller and the similar used item that the seller intends to sell. Such channels include online product introduction, previous evaluations for the similar products, BBS discussion and communications within the virtual community. By searching these channels with negligible costs in the current e-commerce environments, the buyer is more informed and becomes “smarter” than before. Intuitively, both features built in the electronic marketplaces force or induce the seller to list more accurate information and set a more appropriate price for the used item with respect to its quality, which might alleviate the “lemons” problem.

This paper focuses on the posted price electronic marketplaces such as Half.com and Amazon.com. The objective of the paper is to model the dynamic online evaluation system, investigate the behavior of buyers with more prior information and explore how these two features affect the “lemons” problem in the electronic marketplaces. From our analysis, we find that used items with higher quality are available in the electronic marketplaces and the size of the markets becomes larger due to the dynamic online evaluation system. We also find that more prior information about the seller and the item for sale not only benefits both the seller and the buyer: the seller can list a higher price with a reputation premium and the buyer can make a better decision on the used item, but also increases the overall quality of used items in the electronic marketplaces. This suggests that the electronic marketplaces have created values, the “lemons” problem is alleviated, and market efficiency is increased in the electronic marketplaces.

This paper outlines the prototype of the electronic marketplace mechanism and its impact on the “lemons” problem. In this prototype, we have not considered the strategic behavior of market participants, which will affect the market efficiency of the electronic marketplaces. In future study, we will address these topics and test the magnitude of “lemons” problem in electronic marketplaces by using the real market data. References available upon request.

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CONSUMER FILE SHARING OF MOTION PICTURES: CONSEQUENCES AND DETERMINANTS

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SUMMARY

The current crisis in the music industry has been extensively covered by the media. Worldwide record sales have been plunging with an annual growth rate of -6.4 percent every year since 1999, with the figures for 2003 signifying another 7.6 percent decrease. Overall, the value of the worldwide music market dropped from $38.7 billion in 1999 to $29.3 billion in 2003 (IFPI 2003; 2004a). The music industry has declared online piracy, i.e., consumer file sharing, to be the main cause of the problem, as the sales slide has largely coincided with the growing popularity of peer-to-peer networks which allow consumers to download music and other content from other consumers without having to pay for it. In fact, the loss of CD sales has been shown to correlate with an increase in CD-R sales which are needed to store the downloaded material (FFA 2003; IFPI 2004b).

Today, consumer file sharing also covers the exchange of video content between consumers without paying fees to the content copyright owners. As for video files, the estimated number of 150,000 downloaded movies per day in 1999 quadrupled to 600,000 downloaded movies per day in 2002 (Reuters 2000; Websense 2003). According to the Motion Picture Association of America (MPAA), around 130,000 movies per day are traded through peer-to-peer networks in the United States alone (MPAA 2004c). The peer-to-peer monitoring company Sandvine reported that 65 percent of all Internet traffic in the U.S. and 70–80 percent of all Internet traffic in Europe results from the swapping of music and movies (Forbes 2004). Although Hollywood seems not to show any signs of economic crisis, with worldwide box office revenues in 2003 higher than ever at USD 20.34 billion (MPAA 2004a) and worldwide home video revenues growing thanks to the rise in DVD consumption (International Video Federation 2003), the MPAA claims that “illegal movie trafficking represents the greatest threat to the economic basis of moviemaking in its 110-year history” (MPAA 2004b). However, this perspective has been criticized by researchers who suggest that neither the music nor the movie industry suffer economically but in fact benefit from peer-to-peer networks for a variety of reasons. As a result, the impact of file sharing on creative industries has become the subject of controversial discussion over the last few years. However, up until now, no peer-reviewed study has been published on the subject of movie file sharing.

In this paper, we address two related research questions. First, we investigate whether the revenue streams of the motion picture industry generated through traditional channels such as theatrical showings, DVD rentals, and DVD sales are affected by the phenomenon of consumer file sharing. Second, we analyze the determinants of the consumers’ downloading activity. To answer these questions, we develop a structural model of downloading consequences and determinants (see Figure 1) and test it applying partial least squares against data from two studies with a total of 837 responses. In contrast to the argument often stated by industry representatives that downloading substitutes legal movie consumption, we find no significant negative correlation between the overall concept of consumer downloading behavior and legal consumption. Specifically, we find a (limited and non-significant) negative impact of technical downloading on movie theater visits and DVD rentals, which is fully compensated by a positive correlation between watching downloaded movies and theater visits and DVD rentals. As for the determinants of movie downloading, we identify three distinct groups of downloading “drivers,” namely, consumer, infrastructure, and content characteristics, which help to understand this wide-spread phenomenon and go beyond the simplistic explanation “because it’s free” (e.g., MPAA 2004d). References available upon request.
FIGURE 1
A Model of Consequences and Determinants of Motion-Picture Downloading Behavior

Determinants

Consumer characteristics
- File sharing knowledge
- Movie-related preferences

Infrastructure characteristics
- Bandwidth
- TV playability

Movie characteristics
- Technical quality

Core constructs

Movie downloading

Consequences

Movie theater visits
- DVD rentals
- DVD sales

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AN OVERVIEW OF ONLINE TRUST: ANTECEDENTS, CONSEQUENCES, AND IMPLICATIONS

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SUMMARY

Trust, in general, is an important factor in many social interactions, involving uncertainty and dependency. Online transactions and online exchange relationships are not only characterized by uncertainty, but also by anonymity, lack of control, and potential opportunism, making risk and trust crucial elements of electronic commerce (Grabner-Kräuter 2002; Kaluscha 2004). Having only limited cognitive resources available, consumers seek to reduce the uncertainty and complexity of transactions and relationships in electronic markets by applying mental shortcuts. One effective mental shortcut under such conditions is trust (Luhmann 1989). Since the mid-1990’s the concept of trust has received increasing attention in the field of electronic commerce by many scholars. Meanwhile, several empirical studies have investigated the role of consumer trust in the specific context of business-to-consumer e-commerce, focusing on different aspects of this dynamic and multi-dimensional construct. However, empirical research in this area is beset by conflicting conceptualizations of the trust construct and inadequate understanding of the relationships between trust, its antecedents, and consequents (Bhattacherjee 2002). Thus, the main objective of this paper is to provide an integrative overview of the rather fragmentary studies.

Therefore, at first, we provide a framework that facilitates a multi-level and multi-dimensional analysis of online trust, proposing a set of trust constructs that reflects both institutional phenomena (system trust) and personal and interpersonal forms of trust (dispositional trust, trusting beliefs, trusting intentions and trust-related behaviors). Building on this framework we then review twenty-four empirical studies (Bhattacherjee 2002; Cheng and Lee 2003; Chiou 2003; Das, Echambadi, McCardle, and Luckett 2003; de Ruyter, Wetzels, and Kleijn 2001; Einwiller 2002; Gefen 2000, 2000a, 2000b; Gefen, Karahanna, and Straub 2003; Gefen and Straub 2003; Jarvenpaa, Tractinsky, and Vitale 1999, 2000; Kim and Prabhakar 2002; Koufaris and Hampton-Sosa 2002a, 2002b, 2004; Lee and Turban 2001; Lui and Jamieson 2003; McKnight, Choudhury, and Kacmar 2002; Pavlou 2003; Pavlou and Chellappa 2001; Pavlou and Chellappa 2001; Suh and Han 2002; Teo and Liu 2002) and focus especially on identifying significant antecedents and consequences on consumer trust in e-commerce in order to provide fellow researchers with a comprehensive reference set.

The identified antecedents of consumer trust in e-commerce can be categorized into four groups, namely (1) beliefs about vendor characteristics, (2) beliefs about website characteristics, (3) institutional-based beliefs and (4) consumer characteristics. The first category includes the perception of the trustworthiness of the vendor (e.g., in Lee and Turban 2001; Gefen 2002b; Cheung and Lee 2003) and several other beliefs such as beliefs about the vendor’s conduct in relation to privacy and security (e.g., in Pavlou and Chellappa 2001; Kim and Prabhakar 2002; Teo and Liu 2002; Koufaris and Hampton-Sosa 2002b, 2004) or beliefs about the vendor’s willingness to share information with the customer (in Koufaris and Hampton-Sosa 2002b, 2004). The second category, beliefs about website characteristics, are mainly about the perceived quality of the website itself (in McKnight et al. 2002; Suh and Han 2002; Koufaris and Hampton-Sosa 2002a, 2004; Gefen et al. 2003) and about social presence on the website (in Gefen and Straub 2003). Two institutional-based beliefs (cf., McKnight and Chervany 2002) that were found to affect consumer trust are the perception of situational normality and the belief about the structural assurances and safeguards on the Internet (e.g., in McKnight et al. 2002; Gefen et al. 2003). The fourth category of trust antecedents identified in the studies, namely consumers characteristics, can be further grouped in the elements of consumers’ disposition to trust others in general, calculative beliefs about others and past experience in regard to online shopping in general or specific online vendors (e.g., in Gefen 2000; Pavlou 2003). The direct consequences of consumer trust in e-commerce, that were examined in the studies and found to be significantly affected by trust are (1) beliefs and attitudes, (2) behavioral intentions and (3) actual behavior. The first group of trust consequences contains beliefs about the specific transaction and the transaction environment (mostly related to perceived risks), beliefs and attitudes about the specific online vendor and beliefs about the online vendor’s website (e.g., in Jarvenpaa et al. 1999, 2000; Gefen 2002a; Teo and Liu 2002; Chiou 2003; Lui and Jamieson 2003; Pavlou 2003). The second category of trust consequences includes the impact of consumer trust on behavioral intentions of the consumer. A number
of behavioral intentions were found to be directly affected by consumer trust, namely the intention to transact with a given online vendor, the intention to inquire and “window shop” at the online vendor, the intention to share personal information with the vendor and the intentions to return to the website in the future and to be loyal to the online vendor (e.g., in Gefen 2000; Gefen 2002b; Gefen and Straub 2003; Bhattacherjee 2002; Einwiller 2002; Koufaris and Hampton-Sosa 2001; Koufaris and Hampton-Sosa 2002b; McKnight et al. 2002; Suh and Han 2002; Gefen et al. 2003; Pavlou 2003). Finally, the fourth group of trust consequences – actual overt behavior – was only measured in Kim and Prabhakar (2002) who found the adoption of online banking at a specific provider to be a direct consequence of consumer trust.

Promising areas for future research in the field of online trust are the examination of more detailed facets of perceived risk and its relation to trust, cross-cultural effects of consumer trust, different antecedents and consequences of trust at the different stages of trust development and from a methodological viewpoint the combination of qualitative and quantitative empirical research as well as longitudinal studies.

In order to make progress in a scientific field, researchers need to be able to form a clear picture of the state of that progress. Consequently, this paper contributes to the growing body of literature on online trust by providing a useful starting point for future research through an integrative overview of twenty-four empirical studies from the fractured field of research on consumer trust in e-commerce. Our findings may also prove to be useful for practitioners as a number of concrete, and empirically derived measures are highlighted that can help to establish consumer trust towards an online vendor. References available upon request.

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A COMPARISON OF PHONE AND ONLINE SURVEY RESULTS ABOUT THE AUDIENCE’S NEWS PREFERENCES ON A LOCAL TELEVISION MARKET

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SUMMARY

The Internet is having an impact on the survey research industry. Many researchers believe that Internet-based survey research will replace traditional methods of data collection (Schuldt and Totten 1994; Couper 2000). Comparing phone to online surveys is crucial after the birth of the “do not call” list, in a time when respondents to traditional phone surveys are increasingly less likely to be found and willing to answer (Tuckel and O’Neill 2002). Only a couple of previous studies compared an Internet survey to a phone survey (Flemming and Sonner 1999; Taylor 2000). While many focused on the use of Internet surveys in public opinion polling, none inspected the option specifically for mass media marketing research.

The current study compared computer-assisted-telephone-interviewing (CATI) data with data collected online via a parallel e-mail survey for a local demographic market area (DMA). E-mail addresses were obtained from the local television station, while the CATI survey used random-digit-dialing with the local area codes. The content of the two questionnaires was almost identical except for the inherent differences related to the surveying medium. The survey asked respondents about their local TV news preferences. The purpose of the study was to determine whether the online survey data would lead to substantially different results thus leading to different strategic decisions in terms of news coverage than the traditional phone survey would. Hence, the authors were interested in whether the reported preferences are consistent across methodologies.

The two parallel surveys were conducted by a recognized Midwestern media research company. The response rates were 26.85 percent for the phone survey and 11 percent for the online version. The questionnaire asked respondents to rate the importance they give to features of the following 8 local news components: news drivers (rate aspects that motivate them to watch news), emotional drivers (rate emotional aspects that motivate them to watch local news), health and medical issues, schools and education, consumer stories, crime and safety, local issues (politics and government), and environmental issues. To investigate the differences between the rankings of each local news component’s features resulting from the two methodologies the authors computed Spearman’s Rho for each of the 8 news components. Except for consumer stories, all local news components ranked similarly for the two parallel surveys.

The extraordinary finding of this study is the similarity of the resulting rankings in terms of importance given to the local news features when using the two different data gathering methodologies. While further analysis is needed to establish differences in terms of how much more one sample prefers one feature versus another, this study found that at least the order of the preferred features is the same for the two sets of respondents. This order is the one preferred by the population in the local demographic area. The finding is important for local television managers, who are interested in knowing how the people in their demographic area rate the different features of local news and do not have the time and/or money to conduct a phone survey. Knowing that online surveys work when an e-mail list of news viewers is available helps local television managers with their planning and budgeting of audience research.

The finding does not apply to a national sample. Sampling e-mails of TV news viewers on a national scale may prove to be a difficult process. However, managers of national TV outlets may conduct distinct online surveys for the different local markets the outlets reach and use the results to take decisions on how to customize their programming for the different markets.

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RESOURCE PARTITIONING AND FIRM RESOURCES: THE DYNAMIC IMPACT OF FOREIGN ENTRANTS ON FIRMS’ STRATEGY

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Hongxin (John) Zhao, Saint Louis University, Saint Louis

SUMMARY

The globalization has significantly changed the international economic landscape and also has significant far-reaching impacts on domestic market conditions. Conspicuously missing from the marketing and international business literature, is a study of marketing strategies of the firms facing competition from both domestic and foreign firms in the marketplace. This current study draws on the resource partitioning theory and theories of firm resource to examine the dynamics of resource partitioning in the globalizing economy.

Brief Literature Review

Resource partitioning theory (Carroll 1985) addresses the distribution of generalist and specialist firms within an industry. Resource partitioning theory maintains that as the number of firms increase, large generalists compete with each other vigorously and thus push other firms from the center of the market to the periphery. When number of generalists in market increase in a dispersed market, the life chance of specialists decreases versus that of generalists. But when a few generalists dominate core of the resource space in the presence of high concentration within the industry, specialist can thrive on the periphery (Carroll 1985, 1994).

The resource-based view of firms holds that a firm can gain competitive advantage by possessing heterogeneous, imperfectly mobile, and rare resources (Barney 1986, 1991). The resource-based view focuses on both protecting unique resources and applying these resources to gain strategic advantage. Sustainable competitive advantage can only be gained if the firm effectively deploys these resources in its product-markets. On the other hand, the resource-advantage theory maintains that resources are the tangible and intangible entities of the firms that enable it to produce efficiently and/or effectively a product (Hunt and Morgan 1995). Resources are both significantly heterogeneous and imperfectly mobile. When a firm possesses a comparative advantage in certain resources over its rivals, a position of competitive advantage in some market segment(s) can lead to sustained and superior financial performance (Hunt and Morgan 1995).

Theoretical Discussions and Propositions

Firms tend to choose different product market position that best represents their core competence in order to optimize their operations. The market partitioning in the industry occurs on the basis of status instead of niche width (Park and Podolny 2000). Armstrong and Collopy (1996) argue that firms with competitor-oriented objective appear to be less profitable and more likely to exit than those profit-oriented firms. Thus, it is logical to conclude that competitor orientation toward market share is not beneficial for the firms’ performance. Thus we propose:

Proposition 1: Generalist and specialist are not likely to engage in direct competition with each other for market share.

Shaver (1995) shows that foreign entry rate has negative impact on the investment’s survival. Similar foreign entrants are likely to compete for the same resource and choose similar strategies or focus on same customer base and suppliers, thus increasing the difficulty for firms to attract local customers and suppliers (Shaver 1995). These entrants are posited to change the dynamics and structure of local industry. Therefore, we propose:

Proposition 2: Foreign entrants in a given industry will alter the concentration and density of the industry and restructure the resource partitioning processes.

The competition created by market leaders at higher level of density can create barriers for the entry of new leaders. The market expansion by leaders can benefit market followers (Ozsomer and Cavusgil 1999). However, leaders are not affected by the expansion in the number of followers, so they can concentrate efforts on erecting barriers for other leaders rather than for followers. Consequently, specialist firms’ density increases the entry of specialist firms. Thus:

Proposition 3: The increase of specialists is positively related to the increase of foreign entrants.
A study by Baum and Korn (1996) shows that increases in market domain overlap raise rates of market entry and exit, but increases in multimarket contact lower them, especially in markets clearly dominated by a single airline. Market domain overlap denotes the similarity in resource requirement in the marketplace. It is a major determinant of the potential for competition among the firms (Baum and Korn 1996). Therefore, we expect that foreign entrants are not likely to take direct approaches to compete with the local generalist firms. Thus:

**Proposition 4:** Foreign entrants are likely to choose specialist strategy in the marketplace.

Firms in different countries originate from and function in different environments. Thus, their resource configuration and endowment might be different in international competition (Fahy and Smithee 1999). Customer relationship provides tacit, inimitable knowledge for the firm by creating new product or process design and continuous quality improvement (Gerwin 1993). Local firms usually possess location-specific resources with which these firms can take advantage of local market conditions (Tallman 1992). To compete with local firms, foreign entrants therefore have to acquire these resources in significant effort over time. As Caves (1971) indicates, firms operating in foreign markets are facing disadvantages to local competitors who possess higher familiarity with and knowledge of local market conditions. On the other hand, firms with more international experiences are more likely to develop organizational capabilities in foreign markets (Johanson and Vahlne 1977). Chang (1995) also asserts that firms with higher level of international experiences face fewer knowledge disadvantages in the host country. Therefore, it is logical to infer that local specialist firms are able to leverage their customer relationship and local market knowledge; and foreign entrants are able to leverage their international experiences. Thus, we propose:

**Proposition 5:** Specialist firms are more likely to launch response strategy based on customer relationship and local market knowledge, while foreign entrants are likely to rely on their international experiences.

**Future Research**

Being a preliminary attempt to examine the impact of foreign entrants on resource partitioning, this current conceptual study provides a foundation for further research. Testable hypotheses can be developed based on this framework and propositions. Another interesting direction would be the performance implications of resource partitioning strategies. References available upon request.

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